

**SANTA BARBARA LOCAL AGENCY
FORMATION COMMISSION**

Basic Financial Statements

Year ended June 30, 2023

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SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

Year ended June 30, 2023

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Independent Auditor’s Report

Board of Commissioners
Santa Barbara Local Agency Formation Commission
Santa Barbara, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the governmental activities and each major fund of the Santa Barbara Local Agency Formation Commission (the “Commission”), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commission’s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Commission as of June 30, 2023, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements for the year ended June 30, 2023 reflect certain prior period adjustments as described further in note 8 to the financial statements. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of the Plan's Proportionate Share of the Net Pension Liability and the Schedule of Plan Contributions* be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2024 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Commission's internal control over financial reporting and compliance.

DavisFarrLLP

Irvine, California
August 30, 2024

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SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2023

This section of the Santa Barbara Local Agency Formation Commission's (the Commission) annual financial report presents our analysis of the Commission's financial performance during the year ended June 30, 2023, and other significant conditions and events. This section should be read in conjunction with the financial statements which follow.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the Commission's operations in more detail than the government-wide statements by providing information about the Commission's most significant revenues and expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of two parts - *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the Commission.

The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Commission's overall financial status. The remaining statements are *fund financial statements* that focus on *individual parts* of the Commission, reporting the Commission's operations in *more detail* than the government-wide statements. The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

Reporting the Commission as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the Commission as a whole. One of the most important questions asked about the Commission's finances is, "Is the Commission as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Commission's net position and changes in net position. You can think of the Commission's net position - the difference between assets and liabilities - as one way to measure the Commission's financial health, or *financial position*. Over time, *increases and decreases* in the Commission's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the Commission's revenues, to assess the *overall health* of the Commission.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2023

Reporting the Commission's Major Funds

The **fund financial statements** provide detailed information about the Commission's most significant funds - not the Commission as a whole. Some funds are required to be established by State law or by bond covenants. However, the Commission establishes other special funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain revenues.

Governmental funds - All of the Commission's basic services are reported in a governmental fund, which focuses on how money flows into and out of that fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Commission's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in a reconciliation following the fund financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A summary of the government-wide *Statement of Net Position* follows:

Table 1
Statements of Net Position
June 30, 2023

| | <u>2023</u> | <u>2022</u> | <u>Change</u> |
|-------------------------------|-------------------|----------------|-----------------|
| Current Assets: | | | |
| Cash | \$ 309,335 | 243,279 | 66,056 |
| Accounts receivable | 12,522 | 283 | 12,239 |
| Interest receivable | 1,897 | 438 | 1,459 |
| Total current assets | <u>323,754</u> | <u>244,000</u> | <u>79,754</u> |
| Total assets | <u>323,754</u> | <u>244,000</u> | <u>79,754</u> |
| | | | |
| Deferred outflow of resources | <u>164,218</u> | <u>204,633</u> | <u>(40,415)</u> |
| Liabilities: | | | |
| Current liabilities | 24,475 | 6,012 | 18,463 |
| Non-current liabilities | 27,383 | 140,280 | (112,897) |
| Total liabilities | <u>51,858</u> | <u>146,292</u> | <u>(94,434)</u> |
| | | | |
| Deferred inflows of resources | <u>169,848</u> | <u>115,868</u> | <u>53,980</u> |
| Net position: | | | |
| Unrestricted | <u>266,266</u> | <u>186,473</u> | <u>79,793</u> |
| Total net position | <u>\$ 266,266</u> | <u>186,473</u> | <u>79,793</u> |

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2023

A closer examination reveals that Net Position between the years increased by \$47,561. This increase is caused primarily by an increase in apportionment revenue offset by an increase in expenses.

A summary of the government-wide *Statement of Activities* follows:

**Table 2
Statement of Activities
Year Ended June 30, 2023**

| | <u>2023</u> | <u>2022</u> | <u>Change</u> |
|--------------------------------------|-------------------|----------------|----------------|
| Revenues: | | | |
| Apportionments | \$ 580,072 | 397,580 | 182,492 |
| Charges for Services | 25,500 | 40,420 | (14,920) |
| Investment Income and Other Revenues | 15,702 | (371) | 16,073 |
| Total revenues | <u>621,274</u> | <u>437,629</u> | <u>183,645</u> |
| Expenses: | | | |
| General Government | <u>541,481</u> | <u>405,397</u> | <u>136,084</u> |
| Total expenditures | <u>541,481</u> | <u>405,397</u> | <u>136,084</u> |
| Changes in net position | 79,793 | 32,232 | 47,561 |
| Beginning net position, restated | <u>186,473</u> | <u>154,241</u> | <u>32,232</u> |
| Ending net position | <u>\$ 266,266</u> | <u>186,473</u> | <u>79,793</u> |

The increase or decrease in net position can provide an indication as to whether the overall financial position of the Commission improved or deteriorated during the year. In fiscal year 2023, the Commission saw an improved financial position.

GENERAL FUND BUDGET

Major deviations between the budget of the General Fund and its actual operating results were as follows:

- Total general fund revenues were higher due to more apportionments.
- Several pension and retiree, health year-end calculations, are not budgeted for as they are prepared at the governmental-wide level and not the fund level.
- Total expenditure was lower than budget by approximately \$50,099, mainly due to cost savings on contracted services, training, and travel.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2023

LONG-TERM LIABILITIES

| | <u>2023</u> | <u>2022</u> | <u>Change</u> |
|-----------------------|------------------|----------------|------------------|
| Net Pension Liability | \$ - | 115,677 | (115,677) |
| Compensated Absences | <u>27,383</u> | <u>24,603</u> | <u>2,780</u> |
| Total Liabilities | <u>\$ 27,383</u> | <u>140,280</u> | <u>(112,897)</u> |

The compensated absences liability represents the value of unused vacation pay that employees have accrued as of the end of the fiscal year. Additional information on long-term liabilities may be found in Note 5 of the notes to financial statements.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the County and local agencies with a general overview of the Commission's finances and show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mike Prater, Executive Officer, at (805) 568-3391.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Statement of Net Position

June 30, 2023

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets: | |
| Cash (note 3) | \$ 309,335 |
| Accounts receivable | 12,522 |
| Interest receivable | 1,897 |
| Total assets | <u>323,754</u> |
| Deferred outflow of resources: | |
| Deferred amounts from pension (note 6) | <u>164,218</u> |
| Total deferred outflow of resources | <u>164,218</u> |
| Liabilities: | |
| Current Liabilities | |
| Accounts payable | 590 |
| Salaries and benefits payable | 23,885 |
| Compensated absences (note 5) | 19,168 |
| Total current liabilities | <u>43,643</u> |
| Non-current liabilities | |
| Compensated absences (note 5) | <u>8,215</u> |
| Total non-current liabilities | <u>8,215</u> |
| Total liabilities | <u>51,858</u> |
| Deferred inflow of resources: | |
| Deferred amounts from pension (note 6) | <u>169,848</u> |
| Total deferred inflow of resources | <u>169,848</u> |
| Net position: | |
| Unrestricted | <u>266,266</u> |
| Total net position | <u>\$ 266,266</u> |

See accompanying notes to the basic financial statements

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Statement of Activities

Year ended June 30, 2023

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Position</u> |
|-------------------------------|-------------------|--|---|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | |
| Governmental activities: | | | | | |
| General government | \$ 541,481 | 25,500 | - | - | (515,981) |
| Total governmental activities | <u>\$ 541,481</u> | <u>25,500</u> | <u>-</u> | <u>-</u> | <u>(515,981)</u> |
| | | General revenues: | | | |
| | | Apportionments | | | 580,072 |
| | | Investment income | | | 6,463 |
| | | Other revenues | | | <u>9,239</u> |
| | | Total general revenues | | | <u>595,774</u> |
| | | Change in net position | | | 79,793 |
| | | Net position, beginning of year, restated (note 8) | | | <u>186,473</u> |
| | | Net position, end of year | | | <u>\$ 266,266</u> |

See accompanying notes to the basic financial statements

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Balance Sheet - Governmental Fund

June 30, 2023

| | <u>General Fund</u> |
|---|---------------------|
| <u>Assets</u> | |
| Cash | \$ 309,335 |
| Accounts receivable | 12,522 |
| Interest receivable | 1,897 |
| Total assets | <u>\$ 323,754</u> |
| <u>Liabilities and Fund Balance</u> | |
| Liabilities: | |
| Accounts payable | \$ 590 |
| Accrued liabilities | 23,885 |
| Total liabilities | <u>24,475</u> |
| Fund balance: | |
| Assigned for: | |
| Contingency | 88,902 |
| Unassigned | 210,377 |
| Total fund balance | <u>299,279</u> |
| Total liabilities and fund balance | <u>\$ 323,754</u> |

See accompanying notes to the basic financial statements

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

**Reconciliation of the Balance Sheet of Governmental Fund
to the Statement of Net Position**

June 30, 2023

Fund balances of governmental funds \$ 299,279

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Long-Term Liability Transactions

Long-term liabilities are not due and payable in the current period and,
accordingly, are not reported in the government fund statements:

Compensated absences (27,383)

Deferred Outflows and Inflows of Resources

Certain deferred outflows and inflows of resources are not due and payable
in the current period and are not current assets or financial resources,
therefore these items are not reported in the governmental funds:

Deferred outflows - pensions 164,218
Deferred inflows - pensions (169,848)

Net position of governmental activities \$ 266,266

See accompanying notes to the basic financial statements

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

**Statement of Revenues, Expenditures, and Changes in
Fund Balance - Governmental Fund**

Year ended June 30, 2023

| | |
|--|-------------------|
| Revenues: | |
| Apportionments | \$ 580,072 |
| Planning study services | 25,500 |
| Investment income | 6,463 |
| Other revenue | <u>9,239</u> |
| Total revenues | <u>621,274</u> |
| Expenditures: | |
| General government: | |
| Salaries and benefits | 376,971 |
| Service and supplies | 163,580 |
| Travel and training | 17,835 |
| Utilities | <u>1,597</u> |
| Total expenditures | <u>559,983</u> |
| Excess (deficiency) of revenues over/(under) expenditures | <u>61,291</u> |
| Net change in fund balance | 61,291 |
| Fund balances at beginning of year, restated | <u>237,988</u> |
| Fund balances at end of year | <u>\$ 299,279</u> |

See accompanying notes to the basic financial statements

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

**Reconciliation of the Statement of Revenues, Expenditures, and
Change in Fund Balance of Governmental Fund to the Statement of Activities**

Year ended June 30, 2023

| | |
|---|------------------|
| Net changes in fund balances - total governmental funds | \$ 61,291 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| <i>Long-Term Liability Transactions</i> | |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources: | |
| Net change in compensated absences | (2,780) |
| Pension expense reported in the governmental funds include the actual contributions made in the fiscal year. Pension expense reported in the Statement of Activities includes the changes in the liabilities and related deferred outflows/inflows of resources. | |
| Net change in net pension deferred outflow/inflow | <u>21,282</u> |
| Change in net position of governmental activities | <u>\$ 79,793</u> |

See accompanying notes to the basic financial statements

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(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.

(2) Summary of Significant Accounting Policies

The financial statements of the Santa Barbara Local Agency Formation Commission (Commission) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

(a) Basis of Accounting and Measurement Focus

The *basic financial statements* of the Commission are composed of the following:

- (a) Government-wide financial statements
- (b) Fund financial statements
- (c) Notes to the basic financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Commission.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a function or segment. Program revenues include charges for services that are restricted to meeting the operational or capital requirements of a particular function or segment. Use of money and other items not properly included among program revenues are reported instead as general revenues.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the *accrual basis of accounting*, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures.

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Commission uses an availability period of 60 days for all revenues.

Charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period.

Other revenue items are considered to be measurable and available when cash is received from the government.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Due to the nature of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current position, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Net Position Flow Assumption – When an expenditure is incurred for purposes for which both restricted and unrestricted net position is available, the Commission’s policy is to apply restricted fund balance first.

Fund Balance Flow Assumption – When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the Commission’s policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as a separate column in the fund financial statements.

(b) Fund Classifications

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance – This includes amounts that cannot be spent because they are either not spendable in form (such as prepaid expenses) or legally or contractually required to be maintained intact.

Restricted Fund Balance – This includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Commission action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed Fund Balance – this includes amounts that can be used only for the specific purposes determined by a formal action of the Commission. It includes legislation (Commission action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Commission's action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The Commission considers a resolution, to constitute a formal action of the Board of Commissioners for the purpose of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Commission but does not require a formal action like a resolution or ordinance. The Commission may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has not yet been granted.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

The Commission reports the following major governmental fund:

The General Fund is used to account for resources traditionally associated with the organization, which are not required legally or by sound financial management to be accounted for in another fund.

(c) Cash and Cash equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. Investments are reported in the accompanying balance sheet at fair value.

(d) Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the Commission's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the Commission's own data.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

(e) Member Allocations of Cost

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

(f) Compensated Absences

The Commission offers employees paid time off benefits for vacation and sick leave.

Vacation Accrual

Regular full-time employees will accrue vacation according to continuous years of service in accordance with the below schedule, up to a maximum of 320 hours.

| <u>Years of Service Completed</u> | <u>Vacation Days Accrual</u> |
|-----------------------------------|------------------------------|
| Up to 4 years | .0889 per hour |
| 4 to 11 years | .101 per hour |
| 11+ years | .112 per hour |

Sick Leave Payout

All employees are entitled to twelve (12) days of sick leave per year and will accrue up to a maximum of ninety (90) days. Upon separation from the Commission, accrued unused sick leave up to a maximum of 300 hours shall be paid to employees with five or more years of service in accordance with the following schedule:

| <u>Years of Service Completed</u> | <u>Sick Leave Payout</u> |
|-----------------------------------|--------------------------|
| 5 to 10 years | 20% |
| 10 to 15 years | 40% |
| 15 to 20 years | 70% |
| 20+ year | 100% |

Sick leave pay will be calculated based on the employee's last hourly rate of pay.

(g) Net Position

Net position represents the difference between assets and liabilities and is classified into three components as follows:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds.

Restricted – This component of net position consists of assets which are legally restricted by outside parties for use for a specific purpose.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”. Designated net position represents unrestricted assets which are segregated by the Board of Directors for specific future uses.

All of the Commission’s net position is unrestricted. Board designated funds for contingency fund reserves are included in unrestricted net position as of June 30, 2023 in the amount of \$266,666.

(h) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission’s proportionate share of the Santa Barbara County Employees’ Retirement System (Retirement System) plan (Plan) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by the Retirement

System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

| | |
|-------------------------|-------------------------------|
| Valuation Date (VD) | June 30, 2021 |
| Measurement Date (MD) | June 30, 2022 |
| Measurement Period (MP) | July 1, 2021 to June 30, 2022 |

(i) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission reports deferred outflows related to pensions and OPEB resulting from actuarial calculations.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission reports deferred inflows related to pensions and OPEB resulting from actuarial calculations.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

(j) 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.

(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.

Cash held at June 30, 2023 consisted of the following:

| | |
|--------------------------------|-------------------|
| Cash with the County Treasurer | \$ <u>309,335</u> |
| Total Cash | \$ <u>309,335</u> |

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.

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).

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(3) Cash (Continued)

Credit Risk

Generally, credit risk is the risk that the 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>Investment Type</u> | <u>Amount</u> | <u>Minimum Legal Rating</u> | <u>Not Rated</u> |
|---|-------------------|-------------------------------------|------------------|
| Santa Barbara County Investment Pool | \$ 309,335 | N/A | \$ 309,335 |
| Total | <u>\$ 309,335</u> | | <u>309,335</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.

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. The balance available for withdrawal is based on the accounting records maintained by the Santa Barbara Investment Pool.

(4) Deferred Compensation Plan

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to the Executive Officer, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Commission matches the employee’s contribution of an amount equal to \$347.34 of each participant’s salary reduction contributions. Total employer contributions to the plan during the year ended June 30, 2023, was \$4,168.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(5) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2023:

| | Balance <u>July 1, 2022</u> | <u>Additions</u> | <u>Payments</u> | Balance <u>June 30, 2023</u> | Due Within <u>One Year</u> |
|----------------------|--------------------------------|------------------|-----------------|---------------------------------|-------------------------------|
| Compensated Absences | <u>\$ 24,603</u> | <u>9,037</u> | <u>(6,257)</u> | <u>27,383</u> | <u>19,168</u> |

(6) Retirement Plan

General Information about the Pension Plan

Plan Descriptions – The Commission is a member of Santa Barbara County’s cost-sharing multiple-employer defined benefit pension plan, administered by the Santa Barbara County Employees’ Retirement System (Retirement System). On October 28, 2021, the Commission approved and adopted Resolution No. 2020-7, allowing employees of the Commission to join the Santa Barbara County Employees’ Retirement System. The Retirement System was organized under the provision of the 1937 County Employees Retirement Act on January 1, 1944.

The Commission currently participates in PEPRA Plan 8 for employees who started on or after January 1, 2013. All plans provide benefits as defined by law upon retirement, death or disability of members based upon a combination of age, years of service, final average salary (generally the 12 highest paid consecutive months), and the benefit options selected. Cost-of-living adjustments after retirement are provided in these plans.

Fiduciary Responsibility –The Retirement System is controlled by its own Retirement Board, which acts as a fiduciary agent for the accounting and control of the member and employee contributions and investment income. The Retirement System issues its Annual Comprehensive Financial Report, including note disclosures and required supplementary information for the pension plan. This may be obtained online at www.sbcers.org or by writing to the Santa Barbara County Employees’ Retirement System at 3916 State Street, Suite 210, Santa Barbara, CA 93105.

Benefits Provided –All pension plans provide benefits, in accordance with CERL regulations, upon retirement, disability, or death of members. Retirement benefits are based on years of service, final average compensation, and retirement age. Employees terminating before accruing five years of retirement service credit (5-year vesting) forfeit the right to receive retirement benefits unless they establish reciprocity with another public agency within the prescribed time period. Non-vested employees who terminate service are entitled to withdraw their accumulated contributions plus accrued interest. Employees who terminate service after earning five years of retirement service credit may leave their contributions on deposit and elect to take a deferred retirement. Differences between expected or actual experience for vested and non-vested benefits may result in an increase or decrease to pension expense and net pension liability.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(6) Retirement Plan (Continued)

Service-related disability benefits are based upon final average compensation or retirement benefits (if eligible). Non-service-related disability benefits are based on 1) years of service and final average compensation or 2) retirement benefits (if eligible). Death benefits are based upon a variety of factors including whether the participant was retired or not. Annual cost-of-living adjustments (COLAs) after retirement are provided in all plans. COLAs are granted to eligible retired members each April based upon the Bureau of Labor Statistics Average Consumer Price Index (CPI) for All Urban Consumers for the Los Angeles-Riverside-Orange County area as of the preceding January 1 and is subject to an annual maximum dependent upon the provisions of the plans.

Specific details for the retirement, disability or death benefit calculations and COLA maximums for each of the pension plans are available in the separately issued SBCERS' Annual Comprehensive Financial Report (ACFR).

Contributions – Per Article 16 of the Constitution of the State of California, contribution requirements of the active employees and the participating employers are established and may be amended by the SBCERS Board of Retirement. Depending upon the applicable plan, employees are required to contribute a certain percentage of their annual pay. The Commission's contractually required contribution rate for the year ended June 30, 2023, was a specified percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Additional amounts required to finance any unfunded accrued liability are the responsibility of the plan sponsors. Contributions to the pension plan were \$23,425 for the year ended June 30, 2023. Active members are plan members who are currently accruing benefits and/or paying contributions into the applicable plan.

The employer and employee contribution rates in effect at June 30, 2023 (measurement date June 30, 2023), are summarized as follows:

PEPRA Plan 8

| | |
|---|---|
| Hire date | On or after January 1, 2013 |
| Benefit formula | 2% @ 62 |
| Benefit vesting schedule | 5 years of service |
| Benefit payments | monthly for life |
| Retirement age | 52-67 |
| Monthly benefits, as a % of eligible compensation | 0.0100% to 0.0250% |
| Required employee contribution rates | 9.51% |
| Required employer normal contribution rates | 9.52% |
| Employer UAL contribution rates | LAFCO only pays the normal cost rate since there is no additional UAL as of June 30, 2021 |

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(6) Retirement Plan (Continued)

For the fiscal year ended June 30, 2023, the Commission did not have an unfunded accrued liability.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2023, the Santa Barbara Local Agency Formation Commission did not have a proportionate share of the net pension liability.

For the year ended June 30, 2023, the net pension liability is measured as of June 30, 2022, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021, updated to June 30, 2022.

The Commission's proportion of the net pension liability was based on a projection of their long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Commission's proportionate share of the net pension liability for PEPR Plan 8 with actuarial valuation dates of June 30, 2021 (measurement dates June 30, 2022) were as follows:

| <u>Measurement Date</u> | |
|------------------------------|-----------------|
| Proportion - June 30, 2021 | 0.0245% |
| Proportion - June 30, 2022 | <u>0.0000%</u> |
| Change - Increase (Decrease) | <u>-0.0245%</u> |

For the fiscal year ended June 30, 2023, the Commission recognized pension expense of \$8,057.

At June 30, 2023, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to measurement date | \$ 23,425 | \$ - |
| Contribution Difference | 11,893 | (16,048) |
| Proportion Change | 128,900 | (153,800) |
| Total | <u>\$ 164,218</u> | <u>\$(169,848)</u> |

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(6) Retirement Plan (Continued)

Employer contributions of \$23,425 reported at June 30, 2023 as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2024.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expenses as follows:

| Fiscal Year Ended June 30: | Deferred Outflows/(Inflows) of Resources |
|-------------------------------|--|
| 2024 | \$ 2,141 |
| 2025 | 2,141 |
| 2026 | 2,141 |
| 2027 | (35,478) |
| 2028 | - |
| Thereafter | - |

Actuarial Assumptions – The total pension liability measured as of June 30, 2022, was determined using the following actuarial assumptions:

| | |
|---------------------------|---|
| Valuation Date | June 30, 2021 |
| Measurement Date | June 30, 2022 |
| Actuarial Assumptions: | |
| Increases in pay | 3.00% plus merit component based on employee classification and years of service |
| Expected Return on Assets | 7% net of investment expenses |
| Inflation | 2.75% |
| Administrative expenses | Administrative expenses are assumed to be \$5.6 million for the fiscal year ending June 30, 2022, to be split between employees and employers based on their share of the overall contributions. This is equivalent to a 3.30% load to both the member and employer contribution rates. Administrative expenses are assumed to increase by the assumed wage inflation of 3.00% each year. |
| Basic Cola | The cost of living as measured by the Consumer Price Index (CPI) will increase at the rate of 2.75% per year. |
| Post Retirement COLA | 2.60% |

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(6) Retirement Plan (Continued)

The actuarial assumptions used in the June 30, 2021, updated to the June 30, 2022 valuation, were based on the results of an actuarial experience study for the period July 1, 2016 through June 30, 2019. As a result of the June 30, 2019 actuarial experience study, no changes were made to the economic assumptions used in the previous actuarial valuation.

The long-term expected rate of return on pension plan investments (7.0 percent) was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized for the years ended June 30, 2023:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------------------|--------------------------|---|
| Emerging Markets Equity | 7.00% | 7.75% |
| Developed Market Non-U.S. Equity | 11.00% | 5.00% |
| Private Equity | 10.00% | 6.50% |
| Broad US Equity | 19.00% | 3.30% |
| Core Fixed Income | 17.00% | 0.00% |
| Custom Non-Core Fixed Income * | 11.00% | 3.13% |
| Custom Real Return | 15.00% | 3.73% |
| Custom Real Estate | 10.00% | 4.50% |
| Total | <u>100.00%</u> | |

* Private credit allocation included in Custom Non-Core Fixed Income

Discount Rate – The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Commission will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund’s fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2023

(Continued)

(6) Retirement Plan (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The Commission’s proportionate share of the net pension liability for PEPR Plan 8, calculated using the discount rate for PEPR Plan 8, as well as what the Commission’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate is \$0 for each calculation

(7) Risk Management

The Commission is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Commission has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources. In addition, the Commission has an agreement with the County of Santa Barbara (the County) in which the Commission shall be included in the County’s risk pool, and the County shall provide liability insurance, defense, and indemnification to the Commission and its officers. There have been no claims in the last two fiscal years, and there were no reductions in the Commission’s insurance coverage during the year ending June 30, 2023.

(8) Prior Period Adjustment

The beginning balances were restated due to the correction of the implementation of GASB 68 for Pension for the fiscal year ending June 30, 2022. The GASB 68 entries for the June 30, 2022, financial statement were prepared using the measurement date June 30, 2022, instead of the correct measurement date of June 30, 2021.

| | Governmental Activities | General Fund |
|---|----------------------------|-------------------|
| Beginning Net Position, July 1 | \$ 199,197 | \$ 199,197 |
| Adjustment to correct pension amounts | (12,724) | 38,791 |
| Beginning Net Position, July 1, as restated | <u>\$ 186,473</u> | <u>\$ 237,988</u> |

REQUIRED SUPPLEMENTARY INFORMATION

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Schedule of the Plan's Proportionate Share of Net Pension Liability

Last Ten Years*

| Measurement Date | <u>06/30/22</u> | <u>06/30/21</u> |
|--|-----------------|-----------------|
| Proportion of the Collective Net Pension Liability | 0.0000% | 0.0245% |
| Proportionate Share of the Collective Net Pension Liability | \$ - | 115,677 |
| Covered Payroll | \$170,724 | 107,356 |
| Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll | 0.00% | 107.75% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 0.00% | 83.96% |

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes in Assumptions: The discount rate was reduced from 7.25% to 7.00% as of June 30, 2020.

*Fiscal year 2022 was the first year of implementation. Therefore, only two years are shown.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Schedule of Plan Contributions

Last Ten Years*

| Fiscal Year | <u>06/30/23</u> | <u>06/30/22</u> |
|--|-----------------|-----------------|
| Actuarially Determined Contribution | \$ 23,425 | 14,867 |
| Contributions in Relation to the Actuarially Determined Contribution | <u>23,425</u> | <u>14,867</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>-</u> |
| Covered Payroll | \$ 273,261 | 170,724 |
| Contributions as a Percentage of Covered Payroll | 8.57% | 8.71% |

Notes to Schedule:

| | |
|-------------------------|--|
| Fiscal Year End: | 06/30/23 |
| Valuation Date: | 06/30/21 |
| Actuarial Assumptions: | |
| Actuarial Cost Method | Entry Age Actuarial Cost Method |
| Asset Valuation Method | Market Value |
| Amortization Method | Effective 06.30.13: Unfunded Actuarial Liability (UAL) amortized over a close 17-year period. Effective 06.30.14: New sources of UAL due to actuary changes or changes in method amortized over closed 19-year period, with 5-year ramp up at the beginning, 4-year ramp down at the end and 10 years of level payments as a percentage of payroll. |
| Discount Rate | 7.00%, net of investment expenses |
| Administrative Expenses | Rates have been loaded by 3% to account for the expected administrative expenses allocated to members. |
| Cost-of Living | 2.75% |
| Salary Increase | 2019 Scale (Service based, includes wage inflation at 3%) |
| Mortality | The PEPRAs contribution rates are based on 50% of the actual Normal Cost. Thus, the mortality rates are the same as those used in the actuarial valuation (Public General 2010 Above-Median Income and Public Safety 2010 Mortality Tables with generational mortality improvements projected from 2010 using Projection Scale MP-2019). |

*Fiscal year 2022 was the first year of implementation. Therefore, only two years are shown

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund**

Year ended June 30, 2023

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|--|-------------------------|----------------|----------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Apportionments | \$ 580,072 | 580,072 | 580,072 | - |
| Planning Studies Services | 25,000 | 25,000 | 25,500 | 500 |
| Investment income | 4,000 | 4,000 | 6,463 | 2,463 |
| Other revenue | <u>7,135</u> | <u>7,135</u> | <u>9,239</u> | <u>2,104</u> |
| Total revenues | <u>616,207</u> | <u>616,207</u> | <u>621,274</u> | <u>5,067</u> |
| Expenditures: | | | | |
| General government: | | | | |
| Salaries and benefits | 371,032 | 371,032 | 376,971 | (5,939) |
| Service and supplies | 204,600 | 204,600 | 163,580 | 41,020 |
| Travel and training | 29,000 | 29,000 | 17,835 | 11,165 |
| Utilities | <u>5,450</u> | <u>5,450</u> | <u>1,597</u> | <u>3,853</u> |
| Total expenditures | <u>610,082</u> | <u>610,082</u> | <u>559,983</u> | <u>50,099</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>6,125</u> | <u>6,125</u> | <u>61,291</u> | <u>(45,032)</u> |
| Net change in fund balances | 6,125 | 6,125 | 61,291 | (45,032) |
| Fund balances at beginning of year, restated | <u>237,988</u> | <u>237,988</u> | <u>237,988</u> | - |
| Fund balances at end of year | <u>\$ 244,113</u> | <u>244,113</u> | <u>299,279</u> | <u>(45,032)</u> |

See accompanying notes to required supplementary information.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

Notes to Required Supplementary Information

Year ended June 30, 2023

(1) Budgetary Reporting

The Commission established accounting control through formal adoption of an annual budget for the General Fund. The budget is prepared on a basis consistent with generally accepted accounting principles. The adopted budget can be amended by the Commission to change both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Increases and decreases in revenue and appropriations and transfers between funds require the Commission's approval. However, the Executive Officer may authorize changes within funds. Expenditures may not exceed total appropriations at the individual fund level. It is the practice of the Commission's management to review the budget monthly and provide quarterly updates to the Commission.

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

Board of Commissioners
Santa Barbara Local Agency Formation Commission
Santa Barbara, California

Independent Auditor's Report

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 each major fund of the Santa Barbara Local Agency Formation Commission (the "Commission"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated August 30, 2024

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described below, that we consider to be a significant deficiency.

2023-01 Material Audit Adjustments

Auditing standards require the auditors to include an internal control recommendation when audit adjustments are detected during the audit process. During our audit, we recorded the following material audit adjustment:

- \$12,000 correction to increase accounts receivable and revenues for apportionments related to fiscal year ending June 30, 2023, but received after fiscal year end.

Recommendation

We recommend management review the trial balance to ensure all adjusting journal entries are recorded prior to the start of audit.

Management Response

We agree with the recommended changes and will ensure all journal entries are posted prior to the start of the audit.

Report on Compliance and Other Matters

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

The Commission's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Commission's response to the findings identified in our audit and described previously. The Commission's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

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.

DavisFarrLLP

Irvine, California
August 30, 2024