

# LAFCO

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**Santa Barbara Local Agency Formation Commission**  
105 East Anapamu Street ♦ Santa Barbara CA 93101  
805/568-3391 ♦ FAX 805/568-2249  
www.sblafco.org ♦ lafco@sblafco.org

August 11, 2022 (Agenda)

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

## **Review of Financial Statements for Fiscal Year Ending June 30, 2021**

Dear Members of the Commission

### RECOMMENDATION

It is recommended that the Commission receive and file the Financial Statements for the Fiscal Year ending June 30, 2021 that is included in this report.

### DISCUSSION

The firm of Bartlett, Pringle and Wolf, LLP has completed a review of the Commission's financial records and prepared the attached (**Attachment A**).

The firm concludes that the financial statements "present fairly, in all material respects, the financial position of the Commission as of June 30, 2021, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America."

The attached report summarizes certain matters required by professional standards to be communicated to the Commission in your oversight responsibility for Santa Barbara LAFCO's financial reporting process. The full report is posted on the Commission's website (www.sblafco.org), and is available for review at the office located at, 105 East Anapamu Street,

Ms. Tracey Solomon, Partner, Bartlett, Pringle and Wolf, LLP, will be present at the meeting to review the document and answer any questions.

### Attachments

Attachment A – Independent Audit's Report for Fiscal Years ending in 2021

Please contact the LAFCO office if you have any questions.

Sincerely,



Mike Prater  
Executive Officer

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**Commissioners:** Roger Aceves ♦ Cynthia Allen ♦ Jay Freeman ♦ Craig Geyer ♦ Joan Hartmann, Vice-Chair ♦ Bob Nelson  
♦ Jim Richardson ♦ Holly Sierra ♦ Shane Stark, Chair ♦ Etta Waterfield ♦ Das Williams **Executive Officer:** Mike Prater

August 11, 2022

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, 2021. This letter is to inform the Commissioners about significant matters related to the conduct of the annual audit so that they can appropriately discharge their oversight responsibility, and we can comply with professional standards.

The following summarizes various matters that must be communicated to you under auditing standards generally accepted in the United States of America.

### **The Respective Responsibilities of the Auditor and Management**

Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our engagement letter dated December 17, 2021, which includes the planned scope and timing of our audit and we have discussed with you our identification of and planned audit response to significant risks of material misstatement. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.

### **Significant Accounts Practices, Including Policies, Estimates and Disclosures**

#### *Preferability of Accounting Policies and Practices*

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

#### *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 period.

Members of the Commission  
Santa Barbara Local Agency Formation Commission  
August 11, 2022  
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### *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 within Generally Accepted Accounting Principles 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*

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the Commission's financial statements:

#### Net Pension Liability

In accordance with GASB Statement No. 68, each participating cost-sharing employer is required to report its proportionate share of the collective net pension liability, pension expense, and deferred outflows/inflows of resources. SBCERS actuaries calculated these amounts in accordance with the parameters of GASB 68.

#### **Audit Adjustments**

Audit adjustments were recorded as follows:

- \$16,763 to adjust net position for prior audit entries not posted by the Commission
- \$1,243 to accrue health insurance contributions for June 2021
- \$249,551 to adjust balances related to the net pension liability as of June 30, 2021

#### **Uncorrected Misstatements**

There were no uncorrected misstatements noted during our audit.

Members of the Commission  
Santa Barbara Local Agency Formation Commission  
August 11, 2022  
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### **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.

### **Difficulties Encountered in Performing the Audit**

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

### **Internal Control Matters**

We have separately communicated any internal control matters identified during our audit of the financial statements in a separate letter dated August 11, 2022.

### **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 dated August 11, 2022.

### **Conclusion**

This letter is intended solely for the information and use of the Members of the Commission and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the Santa Barbara Local Agency Formation Commission.

Very truly yours,

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

DRAFT

**SANTA BARBARA LOCAL AGENCY**  
**FORMATION COMMISSION**  
**JUNE 30, 2021 AND 2020**  
FINANCIAL STATEMENTS



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

ATTACHMENT A

## SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the Santa Barbara Local Agency Formation Commission (the Commission) as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2021 and 2020, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6, Santa Barbara County Employees' Retirement System – Schedule of Santa Barbara Local Agency Formation Commission's Proportionate Share of the Net Pension Liability on page 20, and Santa Barbara County Employees' Retirement System – Schedule of Santa Barbara Local Agency Formation Commission's Contributions on page 21, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The Supplemental Schedules of Revenues, Expenses and Changes in Net Position - Actual vs. Budget on pages 22 and 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Schedules of Revenues, Expenses and Changes in Net Position - Actual vs. Budget are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedules of Revenues, Expenses and Changes in Net Position - Actual vs. Budget are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Santa Barbara, California

August 11, 2022



## SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2021, and other significant conditions and events. This section should be read in conjunction with the financial statements, which follow.

#### Financial Highlights

- The Commission's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2020-2021 by \$160,131.
- For the year ended June 30, 2021, the Commission's operating expenses exceeded its operating revenues by \$59,868.

#### Overview of Financial Statements

The financial statements provide information about the Commission, whose records are maintained by the County of Santa Barbara accounting system. The County provides treasury and investment services to the Commission.

- The Statement of Net Position provides an overview of the Commission's assets (or resources) and liabilities (or obligations).
- The Statement of Revenues, Expenses and Changes in Net Position provides information regarding the Commission's operating revenues, operating expenses, income from operations, non-operating revenue and change in net position from the beginning of the year to the end of the year.
- The Statement of Cash Flows provides information regarding the Commission's cash receipts and cash disbursements during the year. This statement differs from the statement of revenues, expenses and changes in net position because this statement accounts only for transactions that result in cash receipts or cash disbursements.
- The Required Supplemental Schedules of Proportionate Share of the Net Pension Liability and Commission's Contributions provide detailed information regarding the Commission's first year of participation in the Santa Barbara County Employees' Retirement System.
- The Supplemental Schedules of Revenues, Expenses and Changes in Net Position-Actual vs. Budget provide detailed information regarding budgeted revenues and expenses compared to actual revenues and expenses.
- The Notes to Financial Statements provide explanations of the Commission's significant accounting policies and procedures which support the financial statements.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021, 2020 and 2019

	2021	2020	2019	FY 2021 to 2020 Change	FY 2020 to 2019 Change
<b><u>ASSETS</u></b>					
Current Assets:					
Cash	\$ 200,620	\$ 235,692	\$ 219,086	\$ (35,072)	\$ 16,606
Accounts receivable	11,909	283	283	11,626	-
Interest receivable	230	844	1,302	(614)	(458)
Total current assets	212,759	236,819	220,671	(24,060)	16,148
Total assets	212,759	236,819	220,671	(24,060)	16,148

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred pensions	198,540	-	-	198,540	-
Total deferred outflows of resources	198,540	-	-	198,540	-

**LIABILITIES**

Current Liabilities:

Current liabilities	19,623	16,763	18,653	2,860	(1,890)
Long-term liabilities	115,677	-	-	115,677	-
Total liabilities	135,300	16,763	18,653	118,537	(1,890)

**DEFERRED INFLOWS OF RESOURCES**

Deferred pensions	115,868	-	-	115,868	-
Total deferred inflows of resources	115,868	-	-	115,868	-

**NET POSITION**

Net Position:

Unrestricted	160,131	220,056	202,018	(59,925)	18,038
Total net position	\$ 160,131	\$ 220,056	\$ 202,018	\$ (59,925)	\$ 18,038

## SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The decrease in unrestricted net position is primarily due to loss from operations in the amount of \$59,868 for the year ended June 30, 2021. The increase in long-term liabilities and deferred inflows and outflows is due to the Commission's resolution to participate in Santa Barbara County Employees' Retirement System.

**Condensed Statement of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 20, 2021, 2020 and 2019**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>FY 2021 to 2020 Change</u>	<u>FY 2020 to 2019 Change</u>
Total operating revenues	\$ 295,316	\$ 331,115	\$ 529,507	\$ (35,799)	\$ (198,392)
Total operating expenses	355,184	320,054	410,693	35,130	(90,639)
Income (loss) from operations	(59,868)	11,061	118,814	(70,929)	(107,753)
Non-operating revenue	(57)	6,977	7,832	(7,034)	(855)
Changes in net position	<u>\$ (59,925)</u>	<u>\$ 18,038</u>	<u>\$ 126,646</u>	<u>\$ (77,963)</u>	<u>\$ (108,608)</u>

The 2021 change in net position decreased from 2020 primarily due to a decrease in operating revenues, specifically in revenue from planning study services and income from other governmental agencies.

#### Current Assets

The Commission's assets consist of cash, accounts receivable and interest receivable.

Other than office furnishings, i.e., file cabinets, conference table and chairs, the Commission has no capital assets. Office furnishings are fully depreciated and have a net book value of zero.

The Commission's file materials consist of records of current and past boundary changes and extensions of public services, local agency spheres of influence and municipal service reviews and budgetary, administrative and procedural files.

#### Long-Term Debt

Long-term liabilities consist of net pension liability relating to the Commission's participation in Santa Barbara County Employees' Retirement System.

#### Conditions Affecting Current Financial Position

Expenditures are predicated upon the Commission's staffing costs, cost allocation fees for use of County facilities and services and operating expenses related to payment of Commissioner per diems for participating in Commission meetings and copy and mailing expenses for Commission notices of hearing, agendas and staff reports.

## SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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#### Request for Information

This financial report is designed to provide the County and local agencies that financially support the Commission, residents, property owners and taxpayers in Santa Barbara County with a general overview of the Commission's finances and the Commission's accountability for the money it receives.

If you have any questions about this report or need additional financial information you may reach Mike Prater, Executive Officer at (805) 568-3391.

**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION**  
**STATEMENT OF NET POSITION**  
**June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 200,620	\$ 235,692
Accounts receivable	11,909	283
Interest receivable	230	844
	<u>212,759</u>	<u>236,819</u>
Total current assets	212,759	236,819
Total assets	<u>212,759</u>	<u>236,819</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pensions	198,540	-
Total deferred outflows of resources	<u>198,540</u>	<u>-</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	5,087	16,763
Salaries and benefits payable	14,536	-
Total current liabilities	<u>19,623</u>	<u>16,763</u>
Long-term liabilities:		
Net pension liability	115,677	-
Total long-term liabilities	<u>115,677</u>	<u>-</u>
Total liabilities	<u>135,300</u>	<u>16,763</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pensions	115,868	-
Total deferred inflows of resources	<u>115,868</u>	<u>-</u>
<b>NET POSITION</b>		
Unrestricted	160,131	220,056
Total net position	<u>\$ 160,131</u>	<u>\$ 220,056</u>

*See accompanying notes*

**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For the Years Ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Operating Revenues:		
Other governmental agencies	\$ 284,982	\$ 304,590
Planning study services	10,334	26,525
	<u>295,316</u>	<u>331,115</u>
Operating Expenses:		
Contractual services	53,371	190,390
Cost allocations	(34,661)	(6,507)
Legal fees	84,431	48,023
Memberships	9,137	5,971
Office expense	414	1,474
Payroll taxes	10,881	1,534
Payroll fees	2,072	939
Professional and special services	40,377	39,974
Professional fees	7,127	6,000
Publications and notices	1,411	1,434
Salaries and benefits	177,270	12,268
Training and travel	2,120	17,403
Telephone services	372	352
Utilities	862	799
	<u>355,184</u>	<u>320,054</u>
Income (loss) from operations	<u>(59,868)</u>	<u>11,061</u>
Non-Operating Revenue:		
Investment income (loss)	<u>(57)</u>	<u>6,977</u>
	<u>(57)</u>	<u>6,977</u>
Change in net position	(59,925)	18,038
Net position, beginning of year	<u>220,056</u>	<u>202,018</u>
Net position, end of year	<u>\$ 160,131</u>	<u>\$ 220,056</u>

*See accompanying notes*

**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 283,690	\$ 331,115
Payments to vendors and employees	(319,319)	(321,944)
Net cash provided (used) by operating activities	<u>(35,629)</u>	<u>9,171</u>
Cash Flows from Investing Activities:		
Interest received	<u>557</u>	<u>7,435</u>
Net cash provided by investing activities	<u>557</u>	<u>7,435</u>
Net increase (decrease) in cash	(35,072)	16,606
Cash, beginning of year	<u>235,692</u>	<u>219,086</u>
Cash, end of year	<u>\$ 200,620</u>	<u>\$ 235,692</u>
Reconciliation of income from operations to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ (59,868)	\$ 11,061
Changes in assets and liabilities:		
Accounts receivable	(11,626)	-
Accounts payable	(11,676)	(1,890)
Salaries and benefits payable	14,536	-
Net pension liability	115,677	-
Deferred outflows	(198,540)	-
Deferred inflows	115,868	-
Net cash provided (used) by operating activities	<u>\$ (35,629)</u>	<u>\$ 9,171</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 for Accounting and Measurement Focus**

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 enterprises, 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.

Enterprise 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 an enterprise fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

An enterprise fund is accounted for on the "flow of economic resources" measurement focus. This means that all assets and liabilities, whether current or long term, are included on the balance sheet. 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, regardless of the timing of related cash flows.

**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.



## NOTES TO FINANCIAL STATEMENTS

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**Note 2 – Summary of Significant Accounting Policies (Continued)****D) 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.

**E) 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.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”. Dedicated 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, 2021 and 2020 in the amount of \$200,000 and \$200,000, respectively.

**F) 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.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

**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 position and statement of cash flows, respectively, at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Cash with the County Treasurer	\$ 200,620	\$ 235,692
Total cash	<u>\$ 200,620</u>	<u>\$ 235,692</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).

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.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

**Note 3 – Cash (Continued)**

<u>2021</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	\$ <u>200,620</u>	N/A	\$ <u>200,620</u>	\$ _____ -	\$ _____ -	\$ _____ -
Total	\$ <u>200,620</u>		\$ <u>200,620</u>	\$ _____ -	\$ _____ -	\$ _____ -
 <u>2020</u>						
<u>Investment Type</u>	<u>Amount</u>	Minimum Legal Rating	Exempt From Disclosure	<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
Santa Barbara County						
Investment Pool	\$ <u>235,692</u>	N/A	\$ <u>235,692</u>	\$ _____ -	\$ _____ -	\$ _____ -
Total	\$ <u>235,692</u>		\$ <u>235,692</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.

**Note 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 for the plan during the year ended June 30, 2021 was \$2,084.

## NOTES TO FINANCIAL STATEMENTS

**Note 5 – 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, which is 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 own Comprehensive Annual Financial Report which includes note disclosures and required supplementary information for the pension plan. This may be obtained online at [www.sbcers.org](http://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 5 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 5 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.

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’ Comprehensive Annual Financial Report (CAFR).

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

**Note 5 – Retirement Plan (Continued)**

*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 percent of their annual pay. The Commission’s contractually required contribution rate for the year ended June 30, 2021, 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. 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, 2021 (measurement date June 30, 2021), are summarized as follows:

	<u>PEPRA Plan 8</u>
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	8.43% - 9.34%
Required employer contribution rates	30.74% - 31.66%

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

As of June 30, 2021, Santa Barbara Local Agency Formation Commission reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>June 30, 2021</u>
Net Pension Liability	\$ 115,677

For the year ended June 30, 2021, the net pension liability of all of the Plans is measured as of June 30, 2021, and the total pension liability for all Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, updated to June 30, 2020.

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 PEPRA Plan 8 with actuarial valuation dates of June 30, 2021 (measurement dates June 30, 2020) were as follows:

## SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

**Note 5 – Retirement Plan (Continued)**

For the Year Ended June 30, 2021	
(Measurement Date June 30, 2020)	
Proportion - June 30, 2020	0.0000%
Proportion - June 30, 2021	0.0245%
Change - Increase (Decrease)	<u>0.0245%</u>

For the years ended June 30, 2021, the Commission recognized pension expense of \$33,005.

At June 30, 2021, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 8,774	\$ -
Differences between actual and expected experience	14,151	(526)
Changes in assumptions	3,748	(2,553)
Investment return	-	(91,392)
Changes in employer's proportion and difference between the employer's contributions and the employer's proportionate share of contributions	171,867	(21,397)
Net differences between projected and actual earnings on plan investments	-	-
	<u>\$ 198,540</u>	<u>\$ (115,868)</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.

Employer contributions of \$8,774 reported at June 30, 2021 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 year ended June 30, 2022.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

**Note 5 – Retirement Plan (Continued)**

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

Year Ended June 30:	Amount
2022	\$ 18,966
2023	22,322
2024	21,940
2025	10,670
2026	-
Thereafter	-
	\$ 73,898

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2021 actuarial measurement date were determined using the following actuarial assumptions:

	For the Year Ended June 30, 2021
Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actual Cost Method	Entry Age
Actuarial Assumptions	
Administrative expenses	Plan expenses base of \$5.5 million for the fiscal year ending June 30, 2021, to be split between employees and employers based on their share of the overall contributions, with wage inflation increases of 3.00% each year.
Discount rate	7.00%
Inflation	3.00%
COLA Increases:	
Basic COLA	2.75%
Post-Retirement COLA	2.60%
Projected Salary Increase	3.00% plus merit component
Investment Rate of Return	7.00% (1)
Post-Retirement Mortality	Sex distinct 2014 CalPERS Healthy Annuitant Mortality Tables, with generational improvements using Projection Scale MP-2016

(1) Net of pension plan investment expense

## SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

**Note 5 – Retirement Plan (Continued)**

The actuarial assumptions used in the June 30, 2020, updated to the June 30, 2021 valuation, were based on the results of an actuarial experience study for the period July 1, 2013 through June 30, 2016.

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, 2021:

Asset Class	For the Year Ended June 30, 2021	
	Target Allocation	Long-Term Expected Real Rate of Return
Emerging markets equity	7%	9.25%
Developed markets non-U.S. equity	11%	7.00%
Private equity	10%	8.00%
Broad US equity	19%	5.30%
Core fixed income	17%	0.50%
Custom non-core fixed income	11%	5.10%
Custom real return	15%	5.00%
Custom real estate	10%	4.55%
Cash	0%	-0.50%
<b>Total</b>	<b>100%</b>	

**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 FINANCIAL STATEMENTS

**Note 5 – Retirement Plan (Continued)**

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the Commission’s proportionate share of the net pension liability for PEPRA Plan 8, calculated using the discount rate for PEPRA 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:

<u>For the Year Ended June 30, 2021</u>	
1% Decrease	6.0%
Net Pension Liability	\$ 268,777
Current Discount Rate	7.0%
Net Pension Liability	\$ 115,677
1% Increase	8.0%
Net Pension Liability	\$ (9,541)

***Pension Plan Fiduciary Net Position*** – Detailed information about each pension plan’s fiduciary net position is available in the separately issued SBCERS CAFR.

**Note 6 – Related Party Transaction**

The Commission appointed their primary legal counsel as Interim Executive Officer from June 4, 2020 to November 5, 2020, to which the Commission paid Executive Officer and legal fees of approximately \$43,000 and \$10,000 during the years ended June 30, 2021 and 2020, respectively.

**Note 7 – Business Risk**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical areas in which the Commission operates. While it is unknown how long these conditions will last and what, if any, the financial effect will be to the Commission, the Commission could be impacted by declining revenue or significant changes in the fair value of assets if economic conditions worsen.

**Note 8 – Subsequent Events**

Subsequent events have been evaluated through August 11, 2022, the date that the financial statements were available for issuance.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION  
SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULE OF SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION'S  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Last 10 Years\***

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	<u>2021</u>
Valuation date	June 30, 2020
Measurement date	June 30, 2021
Proportion of the net pension liability	0.0245%
Proportionate share of the net pension liability	\$ 115,677
Covered payroll	\$ 107,356
Proportionate share of the net pension liability as percentage of covered payroll	107.8%
Plan fiduciary net position as a percentage of the total pension liability	89.4%

**Notes to Schedule:**

\* Fiscal year 2021 was the 1st year of implementation, therefore only one year is shown.

**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION  
SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULE OF SANTA BARBARA LOCAL AGENCY  
FORMATION COMMISSION'S CONTRIBUTIONS  
Last 10 Years\***

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	<u>2021</u>
Contractually required contribution (actuarially determined)	\$ 10,027
Contributions in relation to the actuarially determined contributions	\$ 10,027
Contribution deficiency (excess)	-
Covered payroll	\$ 107,356
Contributions as a percentage of covered payroll	9.34%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2020-21 were derived from the June 30, 2021 valuation report.

\* Fiscal year 2021 was the 1st year of implementation, therefore only one year is shown.

**SUPPLEMENTARY INFORMATION**

**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**ACTUAL VS. BUDGET**  
**For the Year Ended June 30, 2021**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues:			
Other governmental agencies	\$ 321,800	\$ 284,982	\$ (36,818)
Planning study services	<u>35,500</u>	<u>10,334</u>	<u>(25,166)</u>
Total operating revenues	<u>357,300</u>	<u>295,316</u>	<u>(61,984)</u>
Operating Expenses:			
Contractual services	240,000	53,371	186,629
Cost allocations	(35,000)	(34,661)	(339)
Legal fees	50,000	84,431	(34,431)
Memberships	6,500	9,137	(2,637)
Office expense	1,000	414	586
Payroll taxes	1,800	10,881	(9,081)
Payroll fees	1,800	2,072	(272)
Professional and special services	45,000	40,377	4,623
Professional fees	7,200	7,127	73
Publications and notices	1,700	1,411	289
Salaries and benefits	15,000	177,270	(162,270)
Training and travel	26,000	2,120	23,880
Telephone services	400	372	28
Utilities	<u>900</u>	<u>862</u>	<u>38</u>
Total operating expenses	<u>362,300</u>	<u>355,184</u>	<u>7,116</u>
Income (loss) from operations	<u>(5,000)</u>	<u>(59,868)</u>	<u>(54,868)</u>
Non-Operating Revenue:			
Interest income	<u>5,000</u>	<u>(57)</u>	<u>(5,057)</u>
Total non-operating revenue	<u>5,000</u>	<u>(57)</u>	<u>(5,057)</u>
Change in net position	<u>\$ -</u>	<u>\$ (59,925)</u>	<u>\$ (59,925)</u>

**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**ACTUAL VS. BUDGET**  
**For the Year Ended June 30, 2020**

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Other governmental agencies	\$ 340,440	\$ 304,590	\$ (35,850)
Planning study services	40,000	26,525	(13,475)
Miscellaneous revenue	1,000	-	(1,000)
Total operating revenues	<u>381,440</u>	<u>331,115</u>	<u>(50,325)</u>
Operating Expenses:			
Contractual services	235,000	190,390	44,610
Cost allocations	(6,800)	(6,507)	(293)
Legal fees	50,000	48,023	1,977
Liability insurance	200	-	200
Memberships	6,500	5,971	529
Office expense	1,500	1,474	26
Payroll taxes	1,800	1,534	266
Payroll fees	1,750	939	811
Professional and special services	45,000	39,974	5,026
Professional fees	7,200	6,000	1,200
Publications and notices	1,200	1,434	(234)
Salaries and wages	15,000	12,268	2,732
Training and travel	26,000	17,403	8,597
Telephone services	400	352	48
Utilities	1,000	799	201
Total operating expenses	<u>385,750</u>	<u>320,054</u>	<u>65,696</u>
Income (loss) from operations	<u>(4,310)</u>	<u>11,061</u>	<u>15,371</u>
Non-Operating Revenue:			
Interest income	<u>4,310</u>	<u>6,977</u>	<u>2,667</u>
Total non-operating revenue	<u>4,310</u>	<u>6,977</u>	<u>2,667</u>
Change in net position	<u>\$ -</u>	<u>\$ 18,038</u>	<u>\$ 18,038</u>