

February 6, 2014

Local Agency Formation Commission

105 East Anapamu Street

Santa Barbara CA 93101

Review of Financial Statements for the Fiscal Year Ending June 30, 2013

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, 2013 that are 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 enclosed Independent Audit's Report for the Fiscal Year 2012-13.

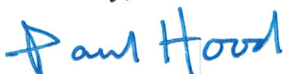
The firm concludes that the financial statements "present fairly, all material respects, the financial position of the Commission as of June 30, 2013, and the results of its operations and its cash flows for the year in conformity with accounting principles generally accepted in the United States of 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 has been transmitted under separate cover, is posted in the Commission's website (www.sblafco.org), and is available for review at the office of the Clerk to the Board, 105 East Anapamu Street, Rm 407, Santa Barbara, CA 93101.

Mr. John J. Britton, with Bartlett, Pringle and Wolf, LLP, will be present at the meeting to review the document and answer any questions.

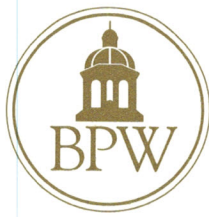
Please contact the LAFCO office if you have any questions.

Sincerely,



PAUL HOOD

Executive Officer



November 13, 2013

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, 2013. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Commission's financial reporting process.

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

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 April 11, 2012 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.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted 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 following is a description of significant

accounting policies or their application that were either initially selected or changed during the year:

In November 2010, the FASB issued GASB 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. This update will improve financial reporting by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity by modifying certain requirements in Statements No.14, *The Financial Reporting Guidance*, and No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This ensures that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. In addition, the requirements for reporting equity interests in component units help ensure that primary government financial statements do not understate their financial position and provide for more consistent and understandable display of those equity interests. The provisions of this statement are effective for financial statement periods beginning after June 15, 2012. The adoption of GASB 61 did not have a material impact to these financial statements.

In December 2010, the FASB issued GASB 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This update will improve financial reporting by codifying all sources for state and local governments so that they derive from a single source. In doing so, this will eliminate the need to determine which FASB and AICPA pronouncement provisions are applicable to state and local governments, which will result in more consistent application of applicable guidance in financial statements. The provisions of this statement are to be applied retroactively for all periods presented and are effective for annual periods beginning after December 15, 2011. The adoptions of GASB 62 did not have a material impact to these financial statements.

In June 2011, the FASB issued GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the District’s financial statements was the renaming of “Net Assets” to “Net Position,” including changing the name of the “Statement of Revenues, Expenses, and Changes in Net Assets” to the “Statement of Revenues, Expenses, and Changes in Net Position.” Ultimately, this new framework will serve to standardize the presentation of deferred balances and their effects on a government’s net position and address uncertainty related to their display. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011.

Significant or Unusual Transactions

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

Alternative Treatments Discussed with Management

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

Management's Judgments and Accounting Estimates

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

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The definition includes adjustments which were not recorded by the Commission because they are not material to the current financial statements but might be potentially material to future financial statements.

Audit adjustments were recorded as follows:

- \$14,084 to record prior audit entry not posted by the Commission
- \$14,308 to accrue contractual services at June 30, 2013
- \$20,000 to remove contingent liability
- \$5,239 to accrue accounts payable at June 30, 2013

Uncorrected Misstatements

There were no uncorrected misstatements noted during our audit.

Consultations with Other Accountants

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

Significant Issues Discussed with Management

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

Disagreements with Management

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

Difficulties Encountered in Performing the Audit

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

Certain Written Representations between Management and Our Firm

In conjunction with the audit of the financial statements, we have been provided a letter of certain representations from management dated November 13, 2013.

Conclusion

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

BARTLETT, PRINGLE & WOLF, LLP

Certified Public Accountants and Consultants

SANTA BARBARA LOCAL AGENCY
FORMATION COMMISSION
JUNE 30, 2013 AND 2012
FINANCIAL STATEMENTS



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

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

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INDEPENDENT AUDITOR'S REPORT

**To the Members of the Commission
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, 2013 and 2012, 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, 2013 and 2012, and the changes in financial position and cash flows thereof 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was 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 15 and 16 are presented for purposes of additional analysis and are not a required party 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 audit 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.

Bartlett, Pugh & Wolf, LLP

Santa Barbara, California

November 13, 2013

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

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, 2013, 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 exceeded its liabilities at the end of fiscal year 2012-2013 by \$19,702.
- For the year ended June 30, 2013, the Commission's expenses exceeded its revenues by \$44,348.

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 beginning of year to end of 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 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**

**Statement of Net Position
June 30, 2013, 2012 and 2011**

	2013	2012	2011	FY 2012 to 2013 Change	FY 2011 to 2012 Change
<u>ASSETS</u>					
Current Assets:					
Cash	\$ 38,886	\$ 77,635	\$ 48,075	\$(38,749)	\$ 29,560
Accounts receivable	283	283	283	-	-
Interest receivable	80	215	249	(135)	(34)
Total current assets	39,249	78,133	48,607	(38,884)	29,526
Total assets	39,249	78,133	48,607	(38,884)	29,526

LIABILITIES AND NET POSITION

Current Liabilities:					
Accounts payable	19,547	14,083	24,873	5,464	(10,790)
Total current liabilities	19,547	14,083	24,873	5,464	(10,790)
Net Position:					
Unrestricted	19,702	64,050	23,734	(44,348)	40,316
Total net position	\$ 19,702	\$ 64,050	\$ 23,734	\$(44,348)	\$ 40,316

The decrease in cash and unrestricted net position is primarily due to a loss from operations in the amount of \$44,536 for the year ended June 30, 2013.

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

**Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2013, 2012 and 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>FY 2012 to 2013 Change</u>	<u>FY 2012 to 2011 Change</u>
Total operating revenues	\$ 288,371	\$ 299,633	\$ 350,130	\$ (11,262)	\$ (50,497)
Total operating expenses	<u>332,907</u>	<u>260,493</u>	<u>254,811</u>	<u>72,414</u>	<u>5,682</u>
Income (loss) from operations	(44,536)	39,140	95,319	(83,676)	(56,179)
Non-operating revenue	<u>188</u>	<u>1,176</u>	<u>1,590</u>	<u>(988)</u>	<u>(414)</u>
Changes in net assets	<u>\$ (44,348)</u>	<u>\$ 40,316</u>	<u>\$ 96,909</u>	<u>\$ (84,664)</u>	<u>\$ (56,593)</u>

The 2013 change in net assets decreased from 2012 primarily due to an increase in operating expenses.

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

The Commission has no long term debt.

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

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 Paul Hood, Executive Officer at (805) 568-3391.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION
STATEMENT OF NET POSITION
June 30, 2013 and 2012

	2013	2012
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 38,886	\$ 77,635
Accounts receivable	283	283
Interest receivable	80	215
Total current assets	39,249	78,133
Total assets	39,249	78,133
<u>LIABILITIES AND NET POSITION</u>		
Current Liabilities:		
Accounts payable	19,547	14,083
Total current liabilities	19,547	14,083
Net Position:		
Unrestricted	19,702	64,050
Total net position	\$ 19,702	\$ 64,050

See accompanying notes

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Other governmental agencies	\$ 256,245	\$ 273,225
Planning study services	30,185	7,076
Miscellaneous revenue	1,941	19,332
	<u>288,371</u>	<u>299,633</u>
Operating Expenses:		
Contractual services	191,695	168,994
Copier expense	5,605	3,996
Cost allocations	8,784	7,891
Legal fees	40,002	18,464
Liability insurance	2,008	2,008
Memberships	-	3,000
Office expense	569	591
Payroll taxes	2,202	1,600
Payroll fees	1,806	1,260
Postage	1,852	1,304
Professional and special services	37,401	17,662
Professional fees	10,200	-
Publications and notices	276	511
Salaries and wages	14,960	11,735
Training and travel	14,384	20,445
Telephone services	318	300
Utilities	845	732
	<u>332,907</u>	<u>260,493</u>
Income (loss) from operations	<u>(44,536)</u>	<u>39,140</u>
Non-Operating Revenue:		
Interest income	<u>188</u>	<u>1,176</u>
	<u>188</u>	<u>1,176</u>
Change in net position	(44,348)	40,316
Net position, beginning of year	<u>64,050</u>	<u>23,734</u>
Net position, end of year	<u>\$ 19,702</u>	<u>\$ 64,050</u>

See accompanying notes

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts from customers	\$ 288,371	\$ 299,633
Payments to vendors and employees	(327,443)	(271,283)
Net cash provided (used) by operating activities	<u>(39,072)</u>	<u>28,350</u>
Cash flows from investing activities:		
Interest received	<u>323</u>	<u>1,210</u>
Net cash provided by investing activities	<u>323</u>	<u>1,210</u>
Net increase (decrease) in cash	(38,749)	29,560
Cash, beginning of year	<u>77,635</u>	<u>48,075</u>
Cash, end of year	<u>\$ 38,886</u>	<u>\$ 77,635</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ (44,536)	\$ 39,140
Changes in assets and liabilities:		
Accounts payable	<u>5,464</u>	<u>(10,790)</u>
Net cash provided (used) by operating activities	<u>\$ (39,072)</u>	<u>\$ 28,350</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 enterprise, where the intent of the Commission is that the costs of operating on a continuing basis be financed or recovered primarily through revenues generated by the Commission.

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.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

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.

F) New Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements:

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. This Statement provides guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity by modifying certain requirements in Statements No. 14, *The Financial Reporting Guidance*, and No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This Statement did not materially affect the Commission’s financial statements as of and for the period ended June 30, 2013.

GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance*. This Statement incorporates into the GASB’s authoritative literature the applicable guidance previously presented in other professional pronouncements issued before November 30, 1989. This Statement did not materially affect the Commission’s financial statements as of and for the period ended June 30, 2013.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

F) New Accounting Pronouncements (continued)

GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements.) The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Commission’s financial statements was the renaming of “Net Assets” to “Net Position,” including changing the name of the “Statement of Revenues, Expenses and Changes in Net Assets” to the “Statement of Revenues, Expenses and Changes in Net Position.”

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 balance sheet and statement of cash flows, respectively, at June 30, 2013 and 2012 is as follows:

	2013	2012
Cash with the County Treasurer	\$ 38,886	\$ 77,635
Total cash	\$ 38,886	\$ 77,635

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

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

Interest Rate Risk

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3 - Cash (continued)

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>2013</u>		Minimum Legal Rating	Exempt From Disclosure	<u>Rating as of Year End</u>		
Investment Type	Amount			AAA	AA	Not Rated
Santa Barbara County						
Investment Pool	\$ 38,886	N/A	\$ -	\$ -	\$ -	\$ 38,886
Total	<u>\$ 38,886</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,886</u>
<u>2012</u>						
Santa Barbara County						
Investment Pool	\$ 77,635	N/A	\$ -	\$ -	\$ -	\$ 77,635
Total	<u>\$ 77,635</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,635</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.

Custodial Credit Risk

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

Investment in Santa Barbara County Investment Pool

The Commission is a participant in the Santa Barbara County Investment Pool that is regulated by the California Government Code. The fair value of the Commission’s investment in this pool is reported in the accompanying financial statements at the amounts based upon the Commission’s pro-rata share of the fair value provided by the Santa Barbara County Investment Pool for the entire Santa Barbara County Investment Pool portfolio. The balance available for withdrawal is based on the accounting records maintained by the Santa Barbara Investment Pool.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 4 - Contingent Liability

The Commission was involved in a lawsuit related to the completion of the Dos Pueblos Golf Course Annexation. On July 28, 2009, the trial court awarded \$185,801 in attorneys' fees against the Commission and real parties in interest. The Commission entered into an Indemnity and Hold Harmless Agreement with the owner of the property associated with the lawsuit. Under the terms of this agreement, the property owner agreed to reimburse the Commission for any attorney fees associated with the lawsuit. The appellate court found in the Commission's favor and reversed the trial court judgment. Legal expenses to help defend the Commission in this case have been reimbursed by the real party in interest in this case. In conjunction with the lawsuit, the Commission had previously recorded a contingent liability in the amount of \$40,000 on the Commission's balance sheet. Upon resolution of the lawsuit, the contingent liability was eliminated and the contingent liability was recorded as a reduction of legal fees during the year ended June 30, 2011. The final payment of \$19,161 to reimburse the Commission was deposited on September 30, 2011.

Note 5 - Subsequent Events

Subsequent events have been evaluated through November 13, 2013, the date that the financial statements were available for issuance.

SUPPLEMENTAL SCHEDULES

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ACTUAL VS. BUDGET
For the Year Ended June 30, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Other governmental agencies	\$ 273,221	\$ 256,245	\$ (16,976)
Planning study services	14,240	30,185	15,945
Miscellaneous revenue	500	1,941	1,441
Total operating revenues	<u>287,961</u>	<u>288,371</u>	<u>410</u>
Operating Expenses:			
Contractual services	194,953	191,695	3,258
Copier expense	5,000	5,605	(605)
Cost allocations	8,783	8,784	(1)
Legal fees	35,000	40,002	(5,002)
Liability insurance	3,000	2,008	992
Memberships	3,102	-	3,102
Office expense	1,500	569	931
Payroll taxes	1,263	2,202	(939)
Payroll fees	1,125	1,806	(681)
Postage	2,000	1,852	148
Professional and special services	30,700	37,401	(6,701)
Professional fees	5,000	10,200	(5,200)
Publications and notices	1,000	276	724
Salaries and wages	16,500	14,960	1,540
Training and travel	21,000	14,384	6,616
Telephone services	350	318	32
Utilities	1,125	845	280
Total operating expenses	<u>331,401</u>	<u>332,907</u>	<u>(1,506)</u>
Loss from operations	<u>(43,440)</u>	<u>(44,536)</u>	<u>(1,096)</u>
Non-Operating Revenue:			
Interest income	1,500	188	(1,312)
Total non-operating revenue	<u>1,500</u>	<u>188</u>	<u>(1,312)</u>
Change in net position	<u>\$ (41,940)</u>	<u>\$ (44,348)</u>	<u>\$ (2,408)</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, 2012

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Other governmental agencies	\$ 273,221	\$ 273,225	\$ 4
Planning study services	14,240	7,076	(7,164)
Miscellaneous revenue	21,000	19,332	(1,668)
Total operating revenues	<u>308,461</u>	<u>299,633</u>	<u>(8,828)</u>
Operating Expenses:			
Contractual services	171,355	168,994	2,361
Copier expense	5,000	3,996	1,004
Cost allocations	14,249	7,891	6,358
Legal fees	40,000	18,464	21,536
Liability insurance	3,000	2,008	992
Memberships	3,035	3,000	35
Office expense	1,500	591	909
Payroll taxes	2,542	1,600	942
Payroll fees	1,125	1,260	(135)
Postage	2,000	1,304	696
Professional and special services	20,000	17,662	2,338
Professional fees	5,000	-	5,000
Publications and notices	1,000	511	489
Salaries and wages	16,500	11,735	4,765
Transportation and travel	21,000	20,445	555
Telephone services	300	300	-
Utilities	1,300	732	568
Total operating expenses	<u>308,906</u>	<u>260,493</u>	<u>48,413</u>
Income (loss) from operations	<u>(445)</u>	<u>39,140</u>	<u>39,585</u>
Non-Operating Revenue:			
Interest income	<u>2,000</u>	<u>1,176</u>	<u>(824)</u>
Total non-operating revenue	<u>2,000</u>	<u>1,176</u>	<u>(824)</u>
Change in net position	<u>\$ 1,555</u>	<u>\$ 40,316</u>	<u>\$ 38,761</u>