

**SANTA BARBARA LOCAL AGENCY**

**FORMATION COMMISSION**

June 30, 2012 and 2011

FINANCIAL STATEMENTS



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

# SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Santa Barbara Local Agency Formation Commission (the "Commission") as of June 30, 2012 and 2011 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to this required supplementary information in accordance with auditing standards general accepted in the United States of America, which consisted of inquires 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information included on pages 14 to 15 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Commission's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Bartlett, Pringle + Wolf, LLP*

November 9, 2012

## 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, 2012, 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 2011-2012 by \$64,050.
- For the year ended June 30, 2012, the Commission's revenues exceeded its expenses by \$40,316.

#### Overview of Required 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 Balance Sheet provides an overview of the Commission's assets (or resources) and liabilities (or obligations).
- The Statement of Revenues, Expenses and Changes in Net Assets provides information regarding the Commission's operating revenues, operating expenses, income from operations, non-operating revenue and change in net assets from beginning of year to end of year.
- The Supplemental Schedules of Revenues, Expenses and Changes in Net Assets 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**

**Balance Sheet**  
**June 30, 2012, 2011 and 2010**

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>FY 2011 to 2012 Change</b>	<b>FY 2010 to 2011 Change</b>
<b><u>ASSETS</u></b>					
Current Assets:					
Cash	\$ 77,635	\$ 48,075	\$ 18,945	\$ 29,560	\$ 29,130
Accounts receivable	283	283	283	-	-
Interest receivable	215	249	156	(34)	93
Total current assets	78,133	48,607	19,384	29,526	29,223
Total assets	\$ 78,133	\$ 48,607	\$ 19,384	\$ 29,526	\$ 29,223
<b><u>LIABILITIES AND NET ASSETS</u></b>					
Current Liabilities:					
Contingent liability	\$	\$	\$ 40,000	\$	\$ (40,000)
Accounts payable	14,083	24,873	52,559	(10,790)	(27,686)
Total current liabilities	14,083	24,873	92,559	(10,790)	(67,686)
Net Assets:					
Unrestricted	64,050	23,734	(73,175)	40,316	96,909
Total liabilities and net assets	\$ 78,133	\$ 48,607	\$ 19,384	\$ 29,526	\$ 29,223

The increase in cash and unrestricted net assets is primarily due to income from operations in the amount of \$39,140 for the year ended June 30, 2012.

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

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**Condensed Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2012, 2011 and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>FY 2011 to 2012 Change</u>	<u>FY 2010 to 2011 Change</u>
Total operating revenues	\$ 299,633	\$ 350,130	\$ 296,269	\$ (50,497)	\$ 53,861
Total operating expenses	<u>260,493</u>	<u>254,811</u>	<u>330,309</u>	<u>5,682</u>	<u>(75,498)</u>
Income from operations	39,140	95,319	(34,040)	(56,179)	129,359
Non-operating revenue	<u>1,176</u>	<u>1,590</u>	<u>1,567</u>	<u>(414)</u>	<u>23</u>
Changes in net assets	<u>\$ 40,316</u>	<u>\$ 96,909</u>	<u>\$ (32,473)</u>	<u>\$ (56,593)</u>	<u>\$ 129,382</u>

The 2012 change in net assets decreased from 2011 primarily due to a decrease in operating revenues.

## SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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#### 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

LAFCO 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.

#### 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 Mary Everett, Commission Clerk at (805) 568-3391.



**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION**  
**BALANCE SHEET**  
**June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b><u>ASSETS</u></b>		
Current Assets:		
Cash	\$ 77,635	\$ 48,075
Accounts receivable	283	283
Interest receivable	215	249
Total current assets	78,133	48,607
Total assets	\$ 78,133	\$ 48,607
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current Liabilities:		
Accounts payable	\$ 14,083	\$ 24,873
Total current liabilities	14,083	24,873
Net Assets:		
Unrestricted	64,050	23,734
Total liabilities and net assets	\$ 78,133	\$ 48,607

*See accompanying notes*

**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Other governmental agencies	\$ 273,225	\$ 296,019
Planning study services	7,076	17,103
Miscellaneous revenue	19,332	37,008
	<u>299,633</u>	<u>350,130</u>
Total operating revenues		
Operating Expenses:		
Audit fees	-	5,000
Contractual services	168,994	168,651
Copier expense	3,996	4,968
Cost allocations	7,891	12,527
Legal fees	18,464	944
Liability insurance	2,008	2,672
Memberships	3,000	2,935
Office expense	591	327
Payroll taxes	1,600	1,804
Payroll fees	1,260	1,227
Postage	1,304	1,112
Professional and special services	17,662	19,454
Publications and notices	511	740
Transportation and travel	20,445	19,030
Telephone services	300	300
Utilities	732	873
Salaries and wages	11,735	12,247
	<u>260,493</u>	<u>254,811</u>
Total operating expenses		
Income from operations	<u>39,140</u>	<u>95,319</u>
Non-Operating Revenue:		
Interest income	<u>1,176</u>	<u>1,590</u>
	<u>1,176</u>	<u>1,590</u>
Total non-operating revenue		
Change in net assets	40,316	96,909
Net assets, beginning of year	<u>23,734</u>	<u>(73,175)</u>
Net assets, end of year	<u>\$ 64,050</u>	<u>\$ 23,734</u>

*See accompanying notes*

**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from customers	\$ 299,633	\$ 350,130
Payments to vendors and employees	<u>(271,283)</u>	<u>(322,497)</u>
Net cash provided by operating activities	<u>28,350</u>	<u>27,633</u>
Cash flows from investing activities:		
Interest received	<u>1,210</u>	<u>1,497</u>
Net cash provided by investing activities	<u>1,210</u>	<u>1,497</u>
Net increase in cash	29,560	29,130
Cash, beginning of year	<u>48,075</u>	<u>18,945</u>
Cash, end of year	<u>\$ 77,635</u>	<u>\$ 48,075</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 39,140	\$ 95,319
Changes in assets and liabilities:		
Accounts payable and advances	(10,790)	(27,686)
Contingent liability	<u>-</u>	<u>(40,000)</u>
Net cash provided by operating activities	<u>\$ 28,350</u>	<u>\$ 27,633</u>

*See accompanying notes*

# SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 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**

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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 Assets

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

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

**Note 3 - Cash**

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

A summary of cash as reported on the balance sheet and statement of cash flows, respectively, at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Cash with the County Treasurer	\$ 77,635	\$ 48,075
Total cash	<u>\$ 77,635</u>	<u>\$ 48,075</u>

**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

**Note 3 - Cash (Continued)**

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

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

Interest Rate Risk

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

Credit Risk

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

<u>2012</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>77,635</u>	N/A	\$ _____ -	\$ _____ -	\$ _____ -	\$ <u>77,635</u>
Total	\$ <u>77,635</u>		\$ _____ -	\$ _____ -	\$ _____ -	\$ <u>77,635</u>
<u>2011</u>						
Santa Barbara County						
Investment Pool	\$ <u>48,075</u>	N/A	\$ _____ -	\$ _____ -	\$ _____ -	\$ <u>48,075</u>
Total	\$ <u>48,075</u>		\$ _____ -	\$ _____ -	\$ _____ -	\$ <u>48,075</u>

Concentration of Credit Risk

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

# SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 3 - Cash (Continued)

#### Custodial Credit Risk

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

#### Investment in Santa Barbara County Investment Pool

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

### 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 9, 2012, the date that the financial statements were available for issuance.

## **SUPPLEMENTAL SCHEDULES**



**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**ACTUAL VS. BUDGET**  
**For the Year Ended June 30, 2012**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenues:</b>			
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)
	<u>308,461</u>	<u>299,633</u>	<u>(8,828)</u>
<b>Operating Expenses:</b>			
Audit fees	5,000	-	5,000
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
Publications and notices	1,000	511	489
Transportation and travel	21,000	20,445	555
Telephone services	300	300	-
Utilities	1,300	732	568
Salaries and wages	16,500	11,735	4,765
	<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>
<b>Non-Operating Revenue:</b>			
Interest income	<u>2,000</u>	<u>1,176</u>	<u>(824)</u>
	<u>2,000</u>	<u>1,176</u>	<u>(824)</u>
Change in net assets	<u>\$ 1,555</u>	<u>\$ 40,316</u>	<u>\$ 38,761</u>

**SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**ACTUAL VS. BUDGET**  
**For the Year Ended June 30, 2011**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenues:</b>			
Other governmental agencies	\$ 296,020	\$ 296,019	\$ (1)
Planning study services	12,000	17,103	5,103
Miscellaneous revenue	1,000	37,008	36,008
	<u>309,020</u>	<u>350,130</u>	<u>41,110</u>
<b>Operating Expenses:</b>			
Audit fees	5,000	5,000	-
Contractual services	171,355	168,651	2,704
Copier expense	5,000	4,968	32
Cost allocations	(41,866)	12,527	(54,393)
Legal fees	40,000	944	39,056
Liability insurance	3,500	2,672	828
Memberships	3,035	2,935	100
Office expense	2,000	327	1,673
Payroll taxes	2,735	1,804	931
Payroll fees	1,125	1,227	(102)
Postage	3,000	1,112	1,888
Professional and special services	20,000	19,454	546
Publications and notices	1,000	740	260
Transportation and travel	21,000	19,030	1,970
Telephone services	300	300	-
Utilities	1,300	873	427
Salaries and wages	23,100	12,247	10,853
	<u>261,584</u>	<u>254,811</u>	<u>6,773</u>
Income from operations	<u>47,436</u>	<u>95,319</u>	<u>47,883</u>
<b>Non-Operating Revenue:</b>			
Interest income	<u>2,000</u>	<u>1,590</u>	<u>(410)</u>
	<u>2,000</u>	<u>1,590</u>	<u>(410)</u>
Change in net assets	<u>\$ 49,436</u>	<u>\$ 96,909</u>	<u>\$ 47,473</u>