

## STAFF REPORT

**SUBJECT:** FY 2002-03 Financial Reports

**MEETING DATE:** February 19, 2004

**AGENDA ITEM:** 7E

**RECOMMENDATION:**

Receive and file SBCAG's audited Annual Financial Report and Single Audit Report for FY 2002-03.

**DISCUSSION:**

Moreland & Associates, Inc., Certified Public Accountants, has completed its audit of the SBCAG's financial statements, and the resulting Annual Financial and Single Audit Reports are attached for the Board's review.

SBCAG implemented Governmental Accounting Standards Board Statements Numbers 34 and 38 during FY 2002-03; therefore, the format and content of the Annual Financial Report differs from previous reports submitted to the Board in prior years.

SBCAG received an unqualified opinion on its financial statements, which means "...the financial statements...present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Barbara County Association of Governments as of June 30, 2003, and the respective changes in net assets, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America". The entire Independent Auditors' Report can be found on page one of the Annual Financial Report.

As a part of their audit, Moreland & Associates, Inc. tested SBCAG's compliance with certain provisions of laws, regulations, contracts, and grants and considered SBCAG's internal control over financial reporting. They also audited SBCAG's compliance with requirements applicable to its largest federal grant (major program). The results of these procedures are documented in the attached Single Audit Report. No findings were noted.

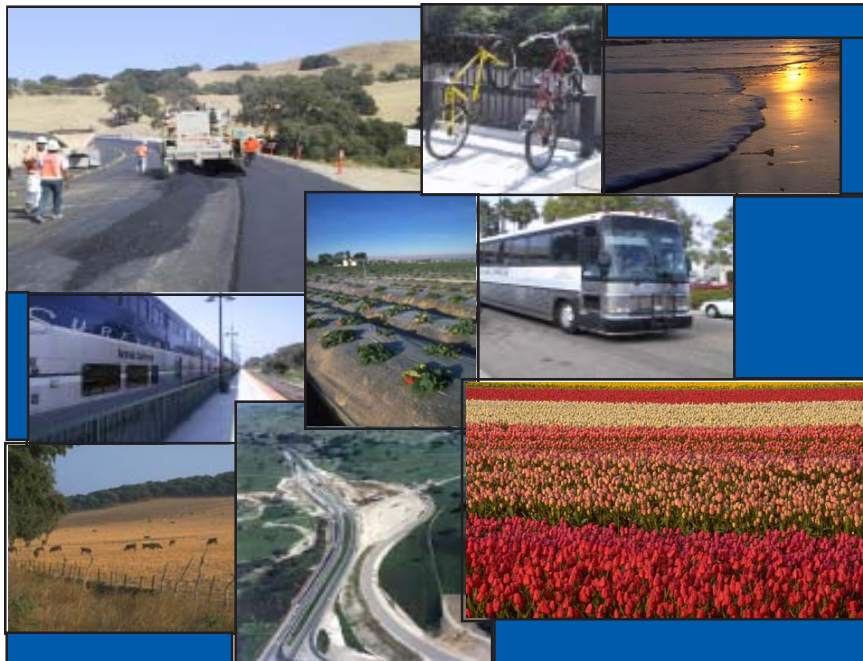
**COMMITTEE REVIEW:** None

**STAFF CONTACT:** Kim Gillian



# ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED  
JUNE 30, 2003



**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2003**

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October 31, 2003

The Board of Directors of  
the Santa Barbara County Association of Governments

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Barbara County Association of Governments, (Association) as of and for the year ended June 30, 2003, which collectively comprise the Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Santa Barbara County Association of Governments' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Barbara County Association of Governments, as of June 30, 2003, and the respective changes in net assets, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I to the financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of Governmental Accounting Standards Board Statements Numbers 34 and 38 for the year ended June 30, 2003. This results in a change in the Association's method of accounting and a change in the format and content of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2003 on our consideration of the Santa Barbara County Association of Governments' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and other required supplementary information identified in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements. The accompanying major fund budgetary comparison schedules and the combining and individual nonmajor fund financial statements and schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The major fund budgetary comparison schedules and the combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## Management's Discussion and Analysis

As management of the Santa Barbara County Association of Governments (SBCAG), we offer readers of the SBCAG's financial statements this narrative overview and analysis of the financial activities of the SBCAG for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the rest of the report.

### Financial Highlights

- The SBCAG's liabilities exceeded its assets at the close of the most recent fiscal year by \$6,171,073 as a result of long-term debt exceeding the amount of cash set aside to fund those liabilities.
- The SBCAG's net assets increased by \$7,825,516 as a result of this year's operations.
- As of the close of the current fiscal year, the SBCAG's governmental funds reported combined ending fund balances of \$20,486,902, an increase of \$4,288,092 in comparison with the prior year. Approximately 27% of this total amount or \$5,536,732 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$472,458, or 27% of total General Fund expenditures.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the SBCAG's basic financial statements. The SBCAG's basic financial statements are made up of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the SBCAG's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the SBCAG's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the SBCAG is improving or deteriorating.

The *Statement of Activities* presents information showing how the SBCAG's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the time of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected intergovernmental revenues and earned but unused vacation leave).

The government-wide financial statements include not only the SBCAG itself (known as the primary government), but also the Santa Barbara County Local Transportation Authority (SBCLTA), a legally separate entity, for which the SBCAG is financially accountable.

The government-wide financial statements can be found on pages 8-9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The SBCAG, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the SBCAG can be classified as governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable

resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The SBCAG maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, five special revenue funds, and the Debt Service Fund, all of which are considered to be major funds. Data from the other two special revenue (governmental) funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The SBCAG adopts an annual appropriated budget for its General Fund, Debt Service Fund, and three special revenue funds. Budgetary comparison statements have been provided for these five funds to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 10-14 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-27 of this report.

**Combining statements.** The combining statements referred to earlier in connection with non-major governmental funds are presented after the required supplementary information. Combining and individual fund statements and schedules can be found on pages 33-34 of this report.

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Comparative total data for the prior year has not been presented in this report since this is the first year the SBCAG is reporting its financial statements under GASB Statement No. 34. Comparative total data will be presented in future years.

#### **Net Assets at June 30, 2003:**

Current and other assets	\$24,705,724
Capital assets	265,681
Total assets	24,971,405
Long-term liabilities outstanding	26,839,621
Other liabilities	4,302,857
Total liabilities	31,142,478
Net assets:	
Invested in capital assets	265,681
Restricted	14,558,251
Unrestricted	(20,995,005)
Total net assets	(\$6,171,073)

The SBCAG's liabilities exceeded assets by \$6,171,073 at the close of the current fiscal year primarily as a result of long-term debt exceeding the amount of cash currently on reserve for debt service payments. Overall, long-term liabilities decreased as a result of a \$3,150,000 principal payment made on the bonds. No new long-term debt was issued.

Capital assets increased by \$166,730 (net of depreciation and disposals) as a result of furniture acquisitions for the new Casa Nueva Building, which SBCAG relocated to in July 2003. The SBCAG uses these capital assets to provide services and perform its many public functions; consequently, these assets are not available for future spending.

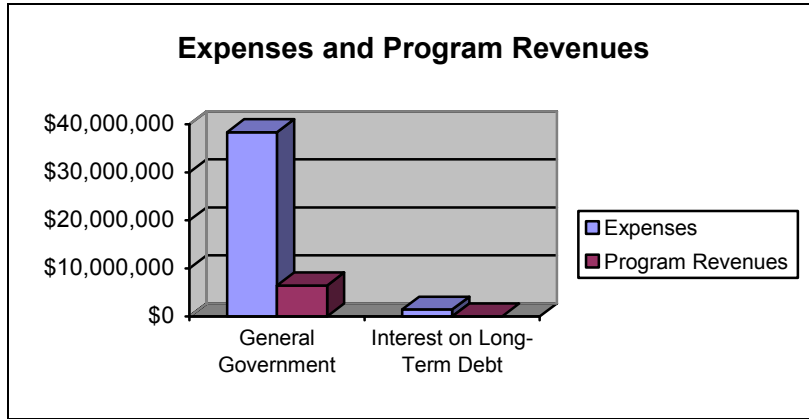
During the current fiscal year, the SBCAG's net assets increased by \$7,825,516. This increase is largely due to certain restricted revenues (i.e. Measure D and Surface Transportation Program) exceeding the highway improvement and transportation related expenditures these funds are earmarked for.

The following table demonstrates the changes in SBCAG's net assets for the year ended June 30, 2003.

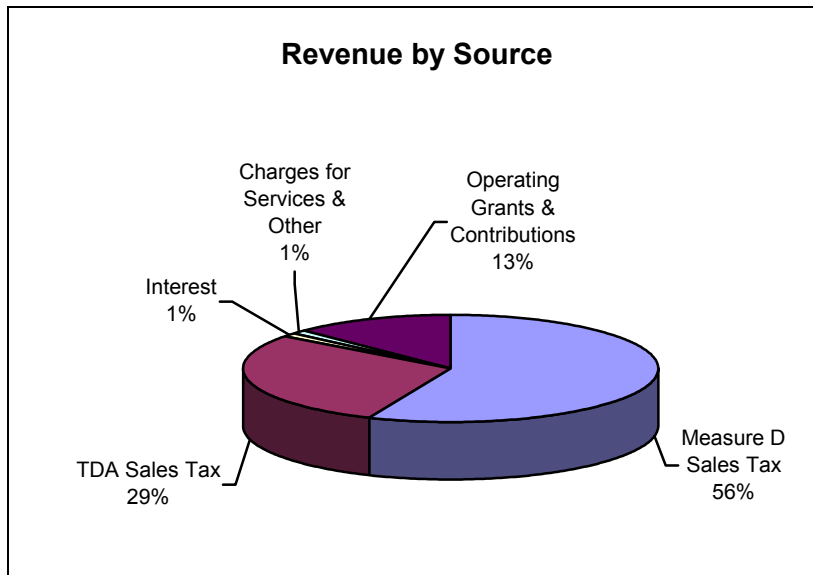
**Changes in Net Assets:**

Revenues:	
Program revenues:	
Charges for services	\$429,671
Operating grants and contributions	5,997,692
General revenues:	
TDA sales tax	13,648,069
Measure D sales tax	26,900,608
Investment earnings	619,188
Other	5,035
Total revenues	47,600,263
Expenses:	
General government	38,351,222
Interest on long-term debt	1,423,525
Total expenses	39,774,747
Increase in net assets	7,825,516
Net assets 7/1/02 (as restated)	(13,996,589)
Net assets 6/30/03	(\$6,171,073)

The following chart presents the cost of SBCAG's general government function and interest on long-term debt as compared to program revenues. Costs not funded by program revenues are paid for with general revenues, which include Measure D and TDA sales taxes, investment earnings, and other revenue sources.



The following chart depicts SBCAG's various revenue sources. Measure D and TDA sales taxes represent the largest portion (85%) of resources that flow through the SBCAG.



### Financial Analysis of the SBCAG's Funds

As noted earlier, the SBCAG uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the SBCAG's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the SBCAG's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the SBCAG's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the SBCAG's governmental funds reported combined ending fund balances of \$20,486,902, an increase of \$4,288,092 in comparison with the prior year. Approximately 27% of this total amount (\$5,536,732) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to future projects like those funded with Measure D and Surface Transportation Program revenues (\$13,363,373); to pay debt service (\$1,194,878); and for other restricted or designated purposes (\$391,919).

The General Fund is the chief operating fund of the SBCAG. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$472,458, while total fund balance reached \$475,453. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 27% of total General Fund expenditures.

The fund balance of the SBCAG's General Fund decreased by \$110,109 during the current fiscal year primarily as a result of the need to purchase new office furnishings for the Casa Nueva Building, which SBCAG relocated to in July 2003.

The fund balance of the Ordinance Number One Highway Development Fund increased by \$1,265,228 as a result of Measure D sales tax revenues exceeding project expenditures and transfers for debt service on the bonds. It is expected that revenues will continue to exceed expenditures as the majority of Measure D projects have been completed.

Another fund that experienced a rather significant increase in fund balance (\$2,925,539) is the Surface Transportation Program (STP) Fund. Claims for STP funds were far less than the revenues received in the current fiscal year. The balance in this fund is restricted for specific transportation related projects.

**General Fund Budgetary Highlights**

The difference between the original budget and the final amended budget was relatively minor (a \$9,500 increase in appropriations) and can be attributed to a compensation and benefits study performed for the entire agency. This increase was funded with available, unreserved fund balance.

Actual intergovernmental revenues received in the current fiscal year were less than budgeted as a result of a delay in the implementation of a project that caused a corresponding delay in the SBCAG's ability to collect the related funding sources. This delay also reduced consultant costs associated with the project, and contributed to total expenditures for the General Fund falling short of original budgetary expectations. The variance between actual expenditures and the budget can also be attributed to vacancies in two staff positions that were open for a portion of the fiscal year and a delay in the timing of a payment related to the new office furnishings.

**Capital Asset and Debt Administration**

**Capital assets.** The SBCAG's investment in capital assets as of June 30, 2003, amounts to \$265,681, net of accumulated depreciation. This investment in capital assets includes office equipment, furniture, software, and highway call boxes. The total increase in the SBCAG's investment in capital assets for the current fiscal year was 168%.

**Capital Assets (net of depreciation):**

Equipment and furniture	\$211,622
Software	12,597
Call boxes	41,462
Total	\$265,681

Additional information on the SBCAG's capital assets can be found in Note II.C. on page 21 of this report.

**Long-term liabilities.** At the end of the current fiscal year, the SBCAG had total long-term liabilities outstanding in the amount of \$26,839,621. Of this amount, \$26,705,000 is attributable to the principal owed on the Series 1993 bonds, which are secured by Measure D sales tax revenue. The Series 1993 bonds have been assigned the following ratings: (1) Fitch Investors Service, Inc. – “AAA”; (2) Moody’s Investors Service – “Aaa”; and (3) Standard & Poor’s Corporation – “AAA”.

The remaining balance of long-term liabilities is made up of \$124,889 in employee compensated absences and \$9,732 in yield reduction payments owed to the federal government.

Additional information on the SBCAG’s long-term liabilities can be found in Note II.F. on pages 22-23 of this report.

### **Economic Factors and Next Year’s Budgets and Rates**

The revenue and expenditure projections incorporated into the FY 2003-04 budget are based upon historical data with inflationary increases; revenue estimates for grants and sales tax revenues provided by outside agencies like the State Department of Transportation and the County Auditor’s Office; and increases in expenditures to reflect new projects that the SBCAG will undertake in the coming year.

A priority of the SBCAG is to continue its longstanding policies of prudent fiscal management while ensuring long-term financial stability. The adopted budget for FY 2003-04 projects a combined increase in fund balance of \$1,834,900 with \$57,800 of this increase attributable to the General Fund.

### **Requests for Information**

This financial report is designed to provide a general overview of the SBCAG’s finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to SBCAG’s Accounting Officer at 260 N. San Antonio Road, Suite B, Santa Barbara, CA 93110.

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Statement of Net Assets**  
**June 30, 2003**

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Cash and investments	\$23,620,627
Receivables	1,085,097
Capital assets, net of depreciation	265,681
Total assets	24,971,405
<b>LIABILITIES:</b>	
Accounts payable and accrued liabilities	3,949,745
Interest payable	328,712
Deferred revenue	24,400
Non-current liabilities:	
Due within one year	3,309,012
Due in more than one year	23,530,609
Total liabilities	31,142,478
<b>NET ASSETS:</b>	
Invested in capital assets	265,681
Restricted for:	
Debt service	1,194,878
Future projects	13,363,373
Unrestricted	(20,995,005)
Total net assets	(\$6,171,073)

The notes to the financial statements are an integral part of this statement.

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**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

<b>Functions/Program</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expenses), Revenues and Changes in Net Assets</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>
General government	\$38,351,222	\$429,671	\$5,997,692	(\$31,923,859)
Interest on long-term debt	1,423,525	0	0	(1,423,525)
<b>Total governmental activities</b>	<b>\$39,774,747</b>	<b>\$429,671</b>	<b>\$5,997,692</b>	<b>(33,347,384)</b>
		General revenues:		
		TDA sales tax		13,648,069
		Measure D sales tax		26,900,608
		Investment earnings		619,188
		Other		5,035
		Total general revenues		41,172,900
		Change in net assets		7,825,516
		Net assets - beginning (as restated)		(13,996,589)
		Net assets - ending		(\$6,171,073)

The notes to the financial statements are an integral part of this statement.

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2003**

	<b>Special Revenue Funds</b>		
	<b>General Fund</b>	<b>Local Transportation Fund</b>	<b>State Transit Assistance Fund</b>
<b>ASSETS:</b>			
Cash and investments	\$402,117	\$1,132,510	\$504,652
Receivables:			
Accounts	0	0	0
Interest	2,230	1,436	4,924
Due from other funds	72,505	0	0
Due from other governments	410,066	0	226,892
Total assets	<b>\$886,918</b>	<b>\$1,133,946</b>	<b>\$736,468</b>
 <b>LIABILITIES AND FUND BALANCES:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$255,403	\$0	\$0
Due to other funds	0	0	0
Due to other governments	25,000	878,567	589,173
Deferred revenue	131,062	0	0
Total liabilities	<b>411,465</b>	<b>878,567</b>	<b>589,173</b>
 <b>Fund balances:</b>			
Reserved for debt service	0	0	0
Reserved for future projects	0	0	0
Reserved for unrealized gains	2,995	6	0
Unreserved, designated for apportionment	0	255,343	0
Unreserved, undesignated	472,458	30	147,295
Total fund balances	<b>475,453</b>	<b>255,379</b>	<b>147,295</b>
Total liabilities and fund balances	<b>\$886,918</b>	<b>\$1,133,946</b>	<b>\$736,468</b>

The notes to the financial statements are an integral part of this statement.

Special Revenue Funds			Special Revenue Funds		
Ordinance Number One Fund	Ordinance Number One Highway Development Fund	Surface Transportation Program Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$1,286,239	\$4,720,982	\$13,650,771	\$1,194,821	\$728,535	\$23,620,627
0	505	0	0	0	505
1,562	25,682	89,254	57	5,042	130,187
0	0	0	0	0	72,505
0	158,603	0	0	158,844	954,405
<u>\$1,287,801</u>	<u>\$4,905,772</u>	<u>\$13,740,025</u>	<u>\$1,194,878</u>	<u>\$892,421</u>	<u>\$24,778,229</u>
\$0	\$166,887	\$0	\$0	\$143,750	\$566,040
0	0	0	0	72,505	72,505
1,285,965	0	605,000	0	0	3,383,705
0	83,105	0	0	54,910	269,077
<u>1,285,965</u>	<u>249,992</u>	<u>605,000</u>	<u>0</u>	<u>271,165</u>	<u>4,291,327</u>
0	0	0	1,194,878	0	1,194,878
0	4,655,780	8,707,593	0	0	13,363,373
0	0	129,449	0	4,126	136,576
0	0	0	0	0	255,343
1,836	0	4,297,983	0	617,130	5,536,732
<u>1,836</u>	<u>4,655,780</u>	<u>13,135,025</u>	<u>1,194,878</u>	<u>621,256</u>	<u>20,486,902</u>
<u>\$1,287,801</u>	<u>\$4,905,772</u>	<u>\$13,740,025</u>	<u>\$1,194,878</u>	<u>\$892,421</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	265,681
Deferred revenue is not available to pay for current period expenditures and, therefore, is not recognized in the funds.	244,677
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(26,839,621)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(328,712)
Net assets of governmental activities	<u>(\$6,171,073)</u>

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2003**

	<u>Special Revenue Funds</u>		
	<u>General Fund</u>	<u>Local Transportation Fund</u>	<u>State Transit Assistance Fund</u>
<b>REVENUES:</b>			
Transportation Development Act tax	\$248,257	\$12,667,574	\$732,238
Measure D sales tax	269,053	0	0
Use of money and property	10,011	6,562	18,619
Intergovernmental	1,115,836	0	0
Other	26,208	0	0
<b>Total revenues</b>	<u>1,669,365</u>	<u>12,674,136</u>	<u>750,857</u>
<b>EXPENDITURES:</b>			
Current:			
Salaries and benefits	1,064,425	0	0
Services and supplies	572,960	1,800	0
Disbursements to sub-recipients	0	12,424,348	820,675
Other	7,114	0	0
Capital outlay	134,975	0	0
Debt service:			
Principal	0	0	0
Interest	0	0	0
<b>Total expenditures</b>	<u>1,779,474</u>	<u>12,426,148</u>	<u>820,675</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(110,109)</u>	<u>247,988</u>	<u>(69,818)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	0	0	0
Transfers out	0	0	0
<b>Total other financing sources (uses)</b>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net change in fund balances</b>	(110,109)	247,988	(69,818)
<b>Fund balances, beginning of year</b>	585,562	7,391	217,113
<b>Fund balances, end of year</b>	<u>\$475,453</u>	<u>\$255,379</u>	<u>\$147,295</u>

The notes to the financial statements are an integral part of this statement.

**Special Revenue Funds**

<b>Ordinance Number One Fund</b>	<b>Ordinance Number One Highway Development Fund</b>	<b>Surface Transportation Program Fund</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$0	\$0	\$0	\$0	\$0	\$13,648,069
18,765,547	7,866,008	0	0	0	26,900,608
7,158	110,047	434,336	10,542	21,913	619,188
0	0	3,787,800	0	875,000	5,778,636
0	0	0	0	429,671	455,879
<u>18,772,705</u>	<u>7,976,055</u>	<u>4,222,136</u>	<u>10,542</u>	<u>1,326,584</u>	<u>47,402,380</u>
0	0	0	0	302,714	1,367,139
3,000	2,084,310	0	0	922,673	3,584,743
18,770,211	0	1,296,597	0	0	33,311,831
0	1,321	0	0	39,022	47,457
0	16,684	0	0	41,709	193,368
0	0	0	3,150,000	0	3,150,000
0	0	0	1,459,750	0	1,459,750
<u>18,773,211</u>	<u>2,102,315</u>	<u>1,296,597</u>	<u>4,609,750</u>	<u>1,306,118</u>	<u>43,114,288</u>
<u>(506)</u>	<u>5,873,740</u>	<u>2,925,539</u>	<u>(4,599,208)</u>	<u>20,466</u>	<u>4,288,092</u>
0	0	0	4,608,512	0	4,608,512
0	(4,608,512)	0	0	0	(4,608,512)
<u>0</u>	<u>(4,608,512)</u>	<u>0</u>	<u>4,608,512</u>	<u>0</u>	<u>0</u>
(506)	1,265,228	2,925,539	9,304	20,466	4,288,092
2,342	3,390,552	10,209,486	1,185,574	600,790	16,198,810
<u>\$1,836</u>	<u>\$4,655,780</u>	<u>\$13,135,025</u>	<u>\$1,194,878</u>	<u>\$621,256</u>	<u>\$20,486,902</u>

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2003**

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

Net change in fund balances - total governmental funds (p. 13): \$4,288,092

- (1) Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, the loss on disposal of capital assets does not use current financial resources but decreases net assets. The net effect of the capital asset transactions is presented below as an increase to net assets.

	Capital outlay	196,537		
	Depreciation	(29,653)		
	Loss on disposal of capital assets	<u>(154)</u>		
		<u>166,730</u>		166,730

- (2) Revenues that do not provide current financial resources are not reported as revenues in the governmental funds but are recognized in the Statement of Activities. 197,883
- (3) Principal payments on long-term debt use current financial resources of governmental funds but have no effect on net assets. 3,150,000
- (4) The decrease in interest payable does not increase current financial resources but is recorded as a decrease in expense in the Statement of Activities. 36,225
- (5) The net increase in other long-term liabilities does not use current financial resources and, therefore, is not reported as an expenditure in governmental funds. (13,414)

Change in net assets of governmental activities (p. 9) \$7,825,516

The notes to the financial statements are an integral part of this statement.

# **Notes to the Financial Statements**

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**Notes to the Financial Statements**

**June 30, 2003**

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**I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Santa Barbara County Association of Governments (SBCAG) is a voluntary council of governments formed in 1966 under a joint powers agreement executed by each of the general purpose local governments in Santa Barbara County. The SBCAG's thirteen member board consists of the five members of the County Board of Supervisors and one city council representative from each of the eight incorporated cities within the County. The purpose of the SBCAG is to engage in regional planning, programming, project delivery, and operational activities.

The accompanying financial statements present the activities of the SBCAG (the primary government) and its component unit, the Santa Barbara County Local Transportation Authority (SBCLTA). A component unit is a legally separate entity for which the primary government is considered to be financially accountable. Financial accountability is demonstrated by the SBCAG Board acting as the governing board for the SBCLTA. A blended component unit, although a legally separate entity, is, in substance, part of the government's operations, so data from this unit is combined (blended) with the data of the primary government for reporting purposes.

**Blended Component Unit**

The SBCLTA is responsible for the administration of certain state and regional highway projects funded by the half percent sales and use tax approved by the electorate as Measure D in November 1989. Additional detailed financial information for the SBCLTA can be obtained from the Santa Barbara County Association of Governments, 260 North San Antonio Road, Suite B, Santa Barbara, CA 93110.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements consist of the statement of net assets and the statement of activities and report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements, and eliminations have been made to minimize the double counting of internal activities.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses benefit more than one specific function or segment and are allocated accordingly. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to the Financial Statements

June 30, 2003

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**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the SBCAG considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, yield reduction payments, and claims and judgments, are recorded only when payment is due.

For the governmental fund financial statements, the SBCAG considers most revenues susceptible to accrual, and recognizes revenue if the accrual criteria have been met. Specifically, intergovernmental revenues, sales taxes, interest, and charges for services are all susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant and accounting requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

The SBCAG's accounts are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

The SBCAG reports the following major governmental funds:

The **General Fund** is SBCAG's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Local Transportation Fund** is used to account for Transportation Development Act revenues, which are claimed by local agencies for pedestrian and bike facilities, transit services, and streets and roads.

The **State Transit Assistance Fund** is used to account for Transportation Development Act revenues, which are claimed by local agencies for transit and transportation planning purposes.

The **Ordinance Number One Fund** is used to account for the revenues received from the Measure D half percent sales tax for state and regional highway projects, public transit, local street and road projects, and administrative expenses. Ordinance No. One specifies that the proceeds from the half percent sales tax shall be divided with seventy percent allocated by formula to the cities and the County and the remaining thirty percent

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**Notes to the Financial Statements**

**June 30, 2003**

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allocated to the SBCLTA to finance fifteen state and regional projects identified in the Expenditure Plan.

The **Ordinance Number One Highway Development Fund** is used to account for the SBCLTA's thirty percent share of Measure D sales tax, which is first used to cover the principal and interest payments on the outstanding Series 1993 bonds. The remainder is used in combination with bond proceeds to finance the development and construction of the fifteen major projects.

The **Surface Transportation Program Fund** is used to administer the receipt and disbursement of State Highway Account funds. Under ISTEA and TEA-21, SBCAG receives an annual apportionment of federal Surface Transportation Program funds that are to be used for transportation projects within Santa Barbara County. These federal funds are then exchanged with Caltrans for a like amount of State Highway Account funds.

The **Debt Service Fund** accounts for the accumulation of resources for, and the payment of, principal and interest on long-term general obligation debt of governmental funds.

**D. Assets, Liabilities, and Net Assets**

**1. Deposits and Investments**

The SBCAG's cash and cash equivalents are considered to be cash on hand, cash held by fiscal agent, and investments held by the Treasurer of the County of Santa Barbara in a cash management investment pool (the "pool").

The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the County Treasurer must follow.

State statutes and the County's investment policy authorize the County Treasurer to invest in U.S. Government Treasury and Agency Securities, bankers' acceptances, commercial paper, corporate bonds and notes, repurchase agreements, and the State Treasurer's Local Agency Investment Fund (LAIF). In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools", investments held by the County Treasurer are stated at fair value. The fair value of pooled investments is determined annually and is based on current market prices received from the securities custodian. The fair value of participants' position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal. LAIF is required to invest in accordance with state statutes.

Some SBCAG funds are legally required to participate in the County's cash management investment pool.

**2. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds"

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**Notes to the Financial Statements**

**June 30, 2003**

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(i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

The SBCAG only accrues revenues at fiscal year end and accrues only those revenues it deems collectible; therefore, there are no allowances for uncollectible accounts. All accounts receivable are expected to be collected within one year.

At June 30, 2003, the SBCAG had \$954,405 of intergovernmental accounts receivable due from federal, state and local governments.

**3. Capital Assets**

Capital assets, which include general office equipment, furniture, software, and highway call boxes, are reported in the applicable governmental column in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date on which they were contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

Office equipment	3-5 years
Office furniture	10 years
Software	3 years
SAFE call boxes	10 years

**4. Compensated Absences**

It is SBCAG's policy to permit employees to accumulate earned, but unused, vacation and sick leave benefits. Upon separation or retirement, employees are paid for accumulated, unused vacation benefits only. All vacation pay is accrued when incurred in the government-wide financial statements. In accordance with GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements", a liability for these amounts is reported in the governmental funds financial statements only if they have matured, for example, as a result of employee resignations and retirements prior to year-end and are paid by the SBCAG subsequent to year-end.

Employees, upon separation or retirement, do not receive any payment for accumulated, unused sick leave. However, employees eligible for retirement benefits may apply their unused sick leave toward determining their length of service for purposes of determining their retirement benefits. No liability is accrued for unpaid accumulated sick leave since it is the SBCAG's policy to record the cost of sick leave only when it is used.

**5. Long-Term Liabilities**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**Notes to the Financial Statements**

**June 30, 2003**

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In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as issuance costs, in the period issued. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures. Interest is reported as an expenditure in the period in which the related payment is made.

**6. Fund Balance**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**II. Detailed Notes on All Funds**

**A. Deposits and Investments**

In accordance with GAAP, the SBCAG's investments at June 30, 2003, are categorized separately to give an indication of the level of risk assumed by the SBCAG. The SBCAG's investments are categorized in the following manner:

Category 1 - Includes investments that are insured or registered or for which the securities are held by the SBCAG or its agent in the SBCAG's name.

Category 2 - Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the SBCAG's name.

Category 3 - Includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the SBCAG's name.

Not Subject to Categorization - Includes investments made directly with another party, money market funds, and pools managed by other governments.

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**Notes to the Financial Statements**

**June 30, 2003**

The SBCAG's investments by category at June 30, 2003, were as follows:

	Category			Not Categorized	Carrying Amount at Fair Value
	1	2	3		
Amount in County's Investment Pool	\$ -	\$ -	\$ -	\$21,723,497	\$21,723,497
Amounts Controlled by Fiscal Agent:					
Money Market	-	-	-	835,124	835,124
County Investment Pool	-	-	-	306,326	306,326
U.S. Govt. Securities	-	-	755,680	-	755,680
Total	-	-	755,680	1,141,450	1,897,130
Total Investments	\$ -	\$ -	\$755,680	\$22,864,947	\$23,620,627

The unrealized gain on investments held at June 30, 2003, was \$136,576. The unrealized gain has been included as a component of reserved fund balance at June 30, 2003. The net realized loss on investments sold or matured during the year was \$80,694. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses in investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year. The net increase in the fair value of investments was \$70,418. This amount takes into account all changes in the fair value (including purchases and sales) that occurred during the year.

**B. Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received as of year-end, but not yet earned.

At June 30, 2003, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unearned</u>	<u>Unavailable</u>	<u>Total</u>
General Fund:			
Revenue due from the state	\$ -	\$ 131,062	\$ 131,062
Highway Development Fund:			
Project reimbursements	-	83,105	83,105
Non-Major Governmental Funds:			
Revenue due from the state	-	30,510	30,510
Bus fare prepayments	24,400	-	24,400
Total non-major governmental funds	<u>24,400</u>	<u>30,510</u>	<u>54,910</u>
Total governmental funds	<u>\$ 24,400</u>	<u>\$ 244,677</u>	<u>\$ 269,077</u>

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**Notes to the Financial Statements**

**June 30, 2003**

**C. Capital Assets**

Capital asset activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance<sup>(1)</sup></u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Equipment/furniture	\$ 142,306	\$ 193,750	\$ 2,534	\$ 333,522
Software	46,235	2,787	-	49,022
Call boxes	934,560	-	-	934,560
Total capital assets	<u>1,123,101</u>	<u>196,537</u>	<u>2,534</u>	<u>1,317,104</u>
Less accumulated depreciation:				
Equipment/furniture	(109,530)	(14,750)	(2,380)	(121,900)
Software	(27,380)	(9,045)	-	(36,425)
Call boxes	(887,240)	(5,858)	-	(893,098)
Total accumulated depreciation	<u>(1,024,150)</u>	<u>(29,653)</u>	<u>(2,380)</u>	<u>(1,051,423)</u>
Total capital assets, net of depreciation	<u>\$ 98,951</u>	<u>\$ 166,884</u>	<u>\$ 154</u>	<u>\$ 265,681</u>

Depreciation expense of \$29,653 was charged to the general government function.

<sup>(1)</sup> As restated. See Note III.G.

**D. Interfund Receivables, Payables, and Transfers**

The composition of interfund balances at June 30, 2003, was as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	SAFE	\$ 8,896
General Fund	Traffic Solutions	<u>63,609</u>
		<u>\$ 72,505</u>

Salaries and benefits are initially paid by the General Fund and then reimbursed by the other funds that have incurred the obligation. Amounts due to the General Fund for unreimbursed salaries and benefits will be repaid in the next fiscal year.

Transfers to/from other funds:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Ord. No. One Hwy Development Fund	Debt Service Fund	<u>\$ 4,608,512</u>

Transfers are used to move Measure D sales tax receipts identified for debt service from the Ordinance Number One Highway Development Fund to the Debt Service Fund to accumulate resources for payments of principal and interest on the bonds.

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**Notes to the Financial Statements**

**June 30, 2003**

**E. Lease Obligations**

The SBCAG leases its office facilities under noncancelable operating leases. As of June 30, 2003, the SBCAG was leasing space at the Castilian Building with plans to move into the Casa Nueva Building in July 2003. The total cost for the Castilian Building lease was \$98,647 for the year ended June 30, 2003. The Casa Nueva lease went into effect in July 2003 and expires July 2033. No Casa Nueva lease costs were incurred during the current fiscal period.

The SBCAG also leases a Xerox laser printer under a lease agreement which expires September 2003. The total cost for this lease was \$3,151 for the year ended June 30, 2003.

Future minimum lease payments for these leases as of June 30, 2003, are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2004	\$ 97,006
2005	99,931
2006	99,931
2007	99,931
2008	99,931
2009-2033	2,498,275
Total	<u><u>\$ 2,995,005</u></u>

**F. Long-Term Liabilities**

Long-term liabilities at June 30, 2003, consist of employee compensated absences, Series 1993 Sales Tax Revenue Bonds, and yield restriction liabilities.

The Series 1993 Bonds were issued by the SBCLTA on November 23, 1993, in the amount of \$48,570,000 at interest rates ranging from 4.0% to 5.0%. The Series 1993 Bonds are payable from the receipts of a half percent retail transactions and use tax imposed in the County of Santa Barbara. The half percent retail transactions and use tax revenues are pledged to secure the repayment of the principal and interest on the bonds. Bond proceeds are to be used primarily to fund certain state and regional highway projects.

Debt service requirements on the Series 1993 Bonds to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$3,295,000	\$1,314,850	\$4,609,850
2005	3,450,000	1,159,985	4,609,985
2006	3,615,000	994,385	4,609,385
2007	3,795,000	817,250	4,612,250
2008	3,980,000	627,500	4,607,500
2009	4,180,000	428,500	4,608,500
2010	4,390,000	219,500	4,609,500
Total	<u><u>\$26,705,000</u></u>	<u><u>\$5,561,970</u></u>	<u><u>\$32,266,970</u></u>

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**Notes to the Financial Statements**

**June 30, 2003**

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The SBCAG has determined it is liable to the federal government (pursuant to existing laws, regulations, and rulings) for yield reduction payments related to the investment of the proceeds of the Series 1993 Bonds. As of June 30, 2003, the yield restriction liability has been calculated at \$9,732.

Payments for compensated absences, principal and interest payments on the bonds, and yield reduction payments are recorded in the funds incurring the obligations.

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Balance 7/1/02	Additions	Reductions	Balance 6/30/03	Due Within One Year
Compensated absences	\$ 105,249	\$ 107,311	\$ 87,671	\$ 124,889	\$ 14,012
Sales tax revenue bonds	29,855,000	-	3,150,000	26,705,000	3,295,000
Yield restriction	15,958	-	6,226	9,732	-
Total	<u>\$ 29,976,207</u>	<u>\$ 107,311</u>	<u>\$ 3,243,897</u>	<u>\$ 26,839,621</u>	<u>\$ 3,309,012</u>

**III. Other Information**

**A. Risk Financing**

The SBCAG is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. These risks are covered by commercial insurance purchased from independent third parties. There have been no reductions in insurance coverage as compared to the previous year, and for the past three fiscal years, no settlement amounts have exceeded insurance coverage.

**B. Related Party Transactions**

The SBCAG utilizes the Financial Information Network of the County of Santa Barbara for the maintenance of its books and records. Financial transactions are initiated and approved by the SBCAG, but the County Auditor-Controller performs data entry, report generation, warrant issuance, and other related functions on behalf of the SBCAG. The County Treasurer deposits the SBCAG's cash into the County's cash management investment pool where it is commingled and invested with the funds of other pool participants.

The SBCAG is not a component unit of the County of Santa Barbara; however, SBCAG's investment pool deposits are included in the basic financial statements of the County of Santa Barbara in an investment trust fund.

The SBCAG typically reimburses the County of Santa Barbara each year for a share of County overhead costs. For the year ended June 30, 2003, \$13,036 was paid to the County for allocated overhead costs.

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**Notes to the Financial Statements**

**June 30, 2003**

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**C. Commitments and Contingencies**

The SBCAG receives Federal financial assistance from the U.S. Department of Transportation. This financial assistance is provided to the SBCAG as a reimbursement of expenditures incurred in the administration of certain Federal programs. Federal financial assistance is recognized as revenue at the time related expenditures are incurred, not when the funds are actually received. Although the SBCAG's financial assistance programs have been audited through June 30, 2003, in accordance with the provisions of OMB Circular A-133, these programs may be subject to further financial and compliance audits by the reimbursing agencies. The amount of any expenditures that may be disallowed by the reimbursing agencies cannot be determined at this time although the SBCAG expects such amounts, if any, to be immaterial.

In order to complete state and regional highway projects funded by Measure D sales tax revenues and bond proceeds, the SBCLTA has entered into various right-of-way, engineering, and construction agreements. At June 30, 2003, the aggregate outstanding balance of these agreements is \$1,675,344.

As of June 30, 2003, the SBCAG was involved in two litigations. For the first matter, a settlement had been reached, and an expenditure has been recorded as an accrued liability in the financial statements in the amount of \$18,000. If the case is re-opened by the plaintiffs, additional liabilities may be incurred but would be limited to costs of litigation. In the opinion of Counsel, it is expected that the settlement agreement will continue in force, and no further litigation or liability will occur.

For the second matter, the SBCAG partnered in a road construction project with Caltrans in which post-contract claims from the contractor in the amount of \$6.8 million are in mediation. Approximately 90% or \$6.12 million of this amount pertains to the SBCAG portions of the contract. Based upon previous favorable rulings at the Board of Review, Counsel believes the mediation will be concluded mostly in favor of SBCAG, but the exact amount of liability, if any, cannot presently be determined.

**D. Deferred Compensation Plan**

The SBCAG offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to substantially all employees at their option, allows participants to defer a portion of their salary until future years. This deferral acts as a savings plan which shelters funds from state and federal taxation until withdrawal. Deferred compensation cannot be withdrawn from the plan by participants until termination, retirement, death, or extreme financial hardship. Amounts deferred by employees and the related income are held in trust by the plan provider for the exclusive benefit of the participants and their beneficiaries. These amounts are not owned by the SBCAG nor are they available to the SBCAG's creditors.

Under the provisions of GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the SBCAG is not required to report the value of the plan assets since the assets are held in trust for the exclusive benefit of the participants and their beneficiaries. Consequently, the value of the plan assets and any related liability to plan participants have been excluded from the SBCAG's financial statements.

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**Notes to the Financial Statements**

**June 30, 2003**

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**E. Retirement Plan**

Plan Description

The Santa Barbara County Public Employees' Retirement System (Retirement System) was organized under the provisions of the 1937 County Employees' Retirement Act, effective on January 1, 1944. The Retirement System operates a cost sharing multiple employer defined benefit plan. Members include all permanent employees working full time or at least 50% part time for the County, Carpinteria-Summerland Fire Protection District, Santa Barbara Coastal Vector Control District, Goleta Cemetery District, Santa Maria Cemetery District, Oak Hill Cemetery District, Carpinteria Cemetery District, Summerland Sanitary District, Air Pollution Control District (APCD), and the Santa Barbara County Association of Governments.

The Retirement System has eight retirement plans, five are currently available to new employees. All new General member employees (except those of APCD) are enrolled in the contributory General Plan 5b. All new Safety members are enrolled in the contributory Safety Plan 4b. All new APCD employees are enrolled in APCD Plan 2. SBCAG employees are enrolled in General Plan 5a. All open plans provide benefits as defined by law upon retirement, death or disability of members based on age, years of service, final average salary (generally 12 highest consecutive months), and the benefit options selected. Cost-of-living adjustments after retirement are provided in all plans except General Plan 2.

Fiduciary Responsibility

The Retirement System is controlled by its own board, the Board of Retirement, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement System publishes its own Comprehensive Annual Financial Report and receives its own independent audit. The Retirement System is also a legally separate entity from the County and not a component unit.

Additional detailed information and separately issued financial statements of the Retirement System can be obtained from the Santa Barbara County Employees' Retirement System located at 105 E. Anapamu Street, Santa Barbara, CA 93101.

Funding Policy

Contributions are made by members and employers at rates recommended by an independent actuary, approved by the Board of Retirement, and adopted by the County Board of Supervisors. For SBCAG employees, a portion of the members' contribution is paid by the SBCAG. Employee contributions are based upon each individual member's age of entry into the system. Employee contributions cannot be withdrawn until separation from employment. Member contributions forfeit to the Retirement System after five years if the member does not request a refund and is not vested.

Employer Contribution

Employer contribution rates are as follows:

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**Notes to the Financial Statements**

**June 30, 2003**

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Open for New Enrollment

General Plan 5b	County:	9.74%	All new County general employees enrolled in plan.
General Plan 5a	Districts:	10.36%	All district general employees enrolled in plan.
Safety Plan 4a	Districts:	19.32%	All district safety employees enrolled in plan.
Safety Plan 4b	County:	15.41%	All new County safety employees enrolled in plan.
APCD Plan 2	APCD:	11.81%	All new APCD employees enrolled in plan.

Closed to New Enrollment

General Plan 5a	County:	10.36%	County employees hired before October 1994 continue in plan.
General Plan 2	County:	3.01%	Non-contributory; employees hired before January 1999 may continue in plan.
APCD Plan 1	APCD:	8.41%	Employees hired before July 1996 may continue in plan.

Annual Pension Cost

The annual required contribution for the current year was determined as part of an actuarial valuation performed as of December 31, 2000. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8.16%; (2) inflation element in wage increases of 4.5%; and (3) salary merit and longevity increases of 1%. Unfunded liabilities are amortized using the level percentage of projected payroll over five years from December 31, 2000. Changes in actuarial gains and loss assumptions are spread over an open 5-year period.

Three-Year Trend Information

The SBCAG's actual contributions, annual pension cost, and the percentage of annual pension cost contributed for the current year and each of the two preceding years are as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Contributions/</u> <u>Annual Pension Cost</u>	<u>Percentage</u> <u>Contributed</u>
6/30/2001	105,911	100%
6/30/2002	126,649	100%
6/30/2003	129,752	100%

**F. Subsequent Event**

In September 2003, the SBCLTA issued \$27,480,000 of sales tax revenue bonds to advance refund all outstanding Series 1993 sales tax revenue bonds for the purpose of reducing future debt service payments. The Series 2003 bonds were issued at interest rates ranging from 2.00% to 3.25% with an ending maturity date of March 15, 2010.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to the Financial Statements

June 30, 2003

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**G. Change in Accounting Principle**

During the fiscal year ended June 30, 2003, the SBCAG implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

As part of this implementation, the SBCAG has included the following items in its calculation of net assets of governmental activities as of July 1, 2002: (1) noncurrent assets; (2) long-term liabilities; and (3) certain revenue that had previously been deferred. Noncurrent assets are capital assets, net of accumulated depreciation. These assets have also been adjusted for certain items not previously capitalized.

As a result of this change in accounting principle, the net assets of governmental activities as of July 1, 2002, as reported in the government-wide statement of activities, has been established through the following adjustments to beginning fund balance.

Beginning fund balance	\$ 16,198,810
Capital assets:	
As previously reported in the account group	188,541
Assets not previously capitalized (SAFE call boxes)	934,560
Accumulated depreciation	<u>(1,024,150)</u>
Subtotal capital assets	<u>98,951</u>
Long-term liabilities:	
As previously reported in the account group	(29,976,207)
Interest accrual on long-term debt	<u>(364,937)</u>
Subtotal long-term liabilities	<u>(30,341,144)</u>
Deferred revenue:	
Intergovernmental revenue not previously recognized	46,794
Beginning net assets, governmental activities, as of July 1, 2002	<u>(\$ 13,996,589)</u>

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual (Cash Basis)**  
**General Fund**  
**For the Year Ended June 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Transportation Development Act tax	\$248,200	\$248,200	\$248,257	\$57
Measure D sales tax	268,400	268,400	269,053	653
Use of money and property	14,500	14,500	10,680	(3,820)
Intergovernmental	1,658,800	1,658,800	1,028,549	(630,251)
Other	362,200	362,200	364,482	2,282
<b>Total revenues</b>	<u>2,552,100</u>	<u>2,552,100</u>	<u>1,921,021</u>	<u>(631,079)</u>
<b>EXPENDITURES:</b>				
Current:				
Salaries and benefits	1,483,300	1,464,400	1,391,867	(72,533)
Services and supplies	1,097,100	1,125,500	519,932	(605,568)
Other	16,300	16,300	7,114	(9,186)
Capital outlay	152,800	152,800	56,984	(95,816)
<b>Total expenditures</b>	<u>2,749,500</u>	<u>2,759,000</u>	<u>1,975,897</u>	<u>(783,103)</u>
<b>Net change in fund balance</b>	<b>(197,400)</b>	<b>(206,900)</b>	<b>(54,876)</b>	<b>152,024</b>
<b>Fund balance, beginning of year</b>	<b>428,999</b>	<b>428,999</b>	<b>428,999</b>	<b>0</b>
<b>Fund balance, end of year</b>	<u><u>\$231,599</u></u>	<u><u>\$222,099</u></u>	<u><u>\$374,123</u></u>	<u><u>\$152,024</u></u>

The note to the required supplementary information is an integral part of this statement.

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual (Cash Basis)**  
**Ordinance Number One - Highway Development**  
**For the Year Ended June 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Measure D sales tax	\$7,849,000	\$7,849,000	\$7,866,009	\$17,009
Use of money and property	240,000	240,000	134,836	(105,164)
Intergovernmental	0	0	150,000	150,000
<b>Total revenues</b>	<u>8,089,000</u>	<u>8,089,000</u>	<u>8,150,845</u>	<u>61,845</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
Services and supplies	2,841,000	3,036,000	2,767,825	(268,175)
Other	1,700	1,700	1,321	(379)
Capital outlay	0	16,100	15,691	(409)
<b>Total expenditures</b>	<u>2,842,700</u>	<u>3,053,800</u>	<u>2,784,837</u>	<u>(268,963)</u>
Excess of revenues over expenditures	5,246,300	5,035,200	5,366,008	330,808
<b>OTHER FINANCING USES:</b>				
Transfers out	(4,610,000)	(4,610,000)	(4,608,512)	(1,488)
<b>Total other financing uses</b>	<u>(4,610,000)</u>	<u>(4,610,000)</u>	<u>(4,608,512)</u>	<u>(1,488)</u>
Net change in fund balance	636,300	425,200	757,496	332,296
Fund balance, beginning of year	4,019,814	4,019,814	4,019,814	0
<b>Fund balance, end of year</b>	<u>\$4,656,114</u>	<u>\$4,445,014</u>	<u>\$4,777,310</u>	<u>\$332,296</u>

The note to the required supplementary information is an integral part of this statement.

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**

**Note to Required Supplementary Information**

**June 30, 2003**

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**Stewardship, Compliance, and Accountability**

**A. Budgetary Information**

Budgets are adopted annually on a cash basis for the General Fund, certain special revenue funds, and the Debt Service Fund. The cash basis differs from generally accepted accounting principles (GAAP); therefore, a reconciliation of the budgetary cash basis to GAAP is presented below.

Amendments to the adopted budget require SBCAG Board approval. Reported budget amounts are as originally adopted and subsequently amended. Annual appropriations lapse at fiscal year end. Budgetary control is generally exercised at the expenditure object level within each fund.

Supplemental appropriations for those funds which the SBCAG adopted an annual budget were \$272,900. Approximately 77% of total supplemental appropriations relate to the SBCLTA and are applicable to capital assets and highway improvement projects funded by Measure D sales tax revenues and bond proceeds. Any deficiency caused by expenditures and other financing uses being greater than revenues and other financing sources is financed by beginning available fund balances.

**B. Budgetary/GAAP Basis Differences**

Accounting principles used by the SBCAG in developing data on a budgetary basis differ from those used in preparing financial statements in conformity with generally accepted accounting principles (GAAP). The following table reconciles the amounts on the Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (which are presented on a non-GAAP budgetary basis) to the amounts on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (which are presented on a GAAP basis) for the following two major governmental funds:

	<u>General Fund</u>	<u>Ord. No. One Highway Development</u>
Fund balances (budgetary basis)	\$ 374,123	\$ 4,777,310
Basis differences:		
Revenue accruals	353,738	25,682
Expenditure accruals	(255,403)	(90,883)
Fair value adjustments	2,995	(56,329)
Fund balances (GAAP basis)	<u>\$ 475,453</u>	<u>\$ 4,655,780</u>

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**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual (Cash Basis) (Major Fund)**  
**Debt Service Fund**  
**For the Year Ended June 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Use of money and property	\$10,000	\$10,000	\$4,959	(\$5,041)
Total revenues	<u>10,000</u>	<u>10,000</u>	<u>4,959</u>	<u>(5,041)</u>
<b>EXPENDITURES:</b>				
Debt service:				
Principal retirement	3,150,000	3,150,000	3,150,000	0
Interest	1,460,000	1,460,000	1,459,750	(250)
Total expenditures	<u>4,610,000</u>	<u>4,610,000</u>	<u>4,609,750</u>	<u>(250)</u>
Deficiency of revenues under expenditures	(4,600,000)	(4,600,000)	(4,604,791)	(4,791)
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	4,610,000	4,610,000	4,608,512	(1,488)
Total other financing sources	<u>4,610,000</u>	<u>4,610,000</u>	<u>4,608,512</u>	<u>(1,488)</u>
Net change in fund balance	10,000	10,000	3,721	(6,279)
Fund balance, beginning of year	1,198,336	1,198,336	1,198,336	0
Fund balance, end of year	<u>\$1,208,336</u>	<u>\$1,208,336</u>	<u>\$1,202,057</u>	<u>(\$6,279)</u>

## **Non-Major Governmental Funds**

### **Special Revenue Funds**

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

**Service Authority for Freeway Emergencies** – The SAFE fund is used to account for an annual fee levied on all motor vehicles registered in Santa Barbara County for the administration, operation, and maintenance of the system of freeway call boxes installed on state highways in the County.

**Traffic Solutions** – This fund receives a combination of federal, state, and local funding sources to create and administer a variety of transportation demand management programs, which promote alternative transportation methods, including a commuter bus service.

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2003**

	<b>Service Authority for Freeway Emergencies Fund</b>	<b>Traffic Solutions Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS:</b>			
Cash and investments	\$604,612	\$123,923	\$728,535
Receivables:			
Interest	3,921	1,121	5,042
Due from other governments	57,102	101,742	158,844
Total assets	\$665,635	\$226,786	\$892,421
<b>LIABILITIES AND FUND BALANCES:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$44,147	\$99,603	\$143,750
Due to other funds	8,896	63,609	72,505
Deferred revenue	0	54,910	54,910
Total liabilities	53,043	218,122	271,165
<b>Fund balances:</b>			
Reserved for unrealized gains	4,126	0	4,126
Unreserved, undesignated	608,466	8,664	617,130
Total fund balances	612,592	8,664	621,256
Total liabilities and fund balances	\$665,635	\$226,786	\$892,421

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the Year Ended June 30, 2003**

	<b>Service Authority for Freeway Emergencies Fund</b>	<b>Traffic Solutions Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES:</b>			
Use of money and property	\$18,711	\$3,202	\$21,913
Intergovernmental	340,192	534,808	875,000
Other	0	429,671	429,671
 Total revenues	 <u>358,903</u>	 <u>967,681</u>	 <u>1,326,584</u>
<b>EXPENDITURES:</b>			
Current:			
Salaries and benefits	32,169	270,545	302,714
Services and supplies	245,016	677,657	922,673
Other	0	39,022	39,022
Capital outlay	8,342	33,367	41,709
 Total expenditures	 <u>285,527</u>	 <u>1,020,591</u>	 <u>1,306,118</u>
 Net change in fund balances	 73,376	 (52,910)	 20,466
 Fund balances, beginning of year	 539,216	 61,574	 600,790
 Fund balances, end of year	 <u>\$612,592</u>	 <u>\$8,664</u>	 <u>\$621,256</u>

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual (Cash Basis)**  
**Service Authority for Freeway Emergencies**  
**For the Year Ended June 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Use of money and property	\$18,200	\$18,200	\$19,007	\$807
Intergovernmental	346,800	346,800	342,452	(4,348)
Total revenues	<u>365,000</u>	<u>365,000</u>	<u>361,459</u>	<u>(3,541)</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
Services and supplies	315,000	315,000	254,038	(60,962)
Capital outlay	0	8,100	7,846	(254)
Total expenditures	<u>315,000</u>	<u>323,100</u>	<u>261,884</u>	<u>(61,216)</u>
Net change in fund balance	50,000	41,900	99,575	57,675
Fund balance, beginning of year	500,907	500,907	500,907	0
Fund balance, end of year	<u><u>\$550,907</u></u>	<u><u>\$542,807</u></u>	<u><u>\$600,482</u></u>	<u><u>\$57,675</u></u>

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual (Cash Basis)**  
**Traffic Solutions**  
**For the Year Ended June 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Use of money and property	\$0	\$0	\$3,219	\$3,219
Intergovernmental	3,826,800	3,826,800	652,620	(3,174,180)
Other	564,000	564,000	456,096	(107,904)
<b>Total revenues</b>	<u>4,390,800</u>	<u>4,390,800</u>	<u>1,111,935</u>	<u>(3,278,865)</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
Services and supplies	1,212,600	1,212,600	966,961	(245,639)
Other	28,200	40,200	39,022	(1,178)
Capital outlay	3,150,000	3,182,200	31,382	(3,150,818)
<b>Total expenditures</b>	<u>4,390,800</u>	<u>4,435,000</u>	<u>1,037,365</u>	<u>(3,397,635)</u>
Net change in fund balance	0	(44,200)	74,570	118,770
Fund balance, beginning of year	49,866	49,866	49,866	0
<b>Fund balance, end of year</b>	<u>\$49,866</u>	<u>\$5,666</u>	<u>\$124,436</u>	<u>\$118,770</u>

**SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS**  
**Federal Grant Direct and Indirect Cost Worksheet**  
**For the Year Ended June 30, 2003**

<u>Description</u>	<u>Direct and Indirect Costs</u>	<u>Adjustments for Unallowable Costs</u>	<u>Adjusted Direct and Indirect Costs</u>
Direct salaries and benefits:			
General Fund	\$1,064,425	(\$215,286)	\$849,139
Service Authority for Freeway Emergencies	32,169	0	32,169
Total direct salaries and benefits	<u>\$1,096,594</u>	<u>(\$215,286)</u>	<u>\$881,308</u>
Indirect costs:			
Indirect salaries and benefits	\$215,286	\$0	\$215,286
Communications	2,513	0	2,513
Janitorial and maintenance services	6,393	0	6,393
Insurance	5,222	0	5,222
Audit fees	27,885	(15,000)	12,885
Other professional services	1,092	(191)	901
Memberships	10,691	(10,691)	0
Office expense	51,688	(4,411)	47,277
Postage	8,228	0	8,228
Copier	6,205	0	6,205
Professional and special services	303,725	(220,910)	82,815
ADP payroll fees	6,154	0	6,154
Rents/leases - structures	82,338	0	82,338
Special departmental expense	4,888	(902)	3,986
Cost allocation	6,747	0	6,747
Special projects	12,500	(12,500)	0
Transportation and travel	30,274	(274)	30,000
Reprographics	1,792	0	1,792
Telephone services	5,322	0	5,322
Fixed assets	127,035	(127,035)	0
Total indirect costs	<u>\$915,978</u>	<u>(\$391,914)</u>	<u>\$524,064</u>

**Reconciliation of Indirect Costs to Statement of Revenues,  
Expenditures, and Changes in Fund Balances  
(General Fund Only)**

Total indirect costs	\$915,978
Less indirect salaries and benefits	(215,286)
Adjust for prior and current year accruals	32,204
Interfund eliminations	(17,847)
Total services and supplies, other expenditures, and capital outlay	<u>\$715,049</u>

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**SANTA BARBARA COUNTY ASSOCIATION**

**OF GOVERNMENTS**

**SINGLE AUDIT REPORT**

**JUNE 30, 2003**

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SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Single Audit Report

June 30, 2003

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October 31, 2003

The Board of Directors of the  
Santa Barbara County Association of Governments

Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Basic Financial Statements  
Performed in Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Barbara County Association of Governments as of and for the year ended June 30, 2003, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Santa Barbara County Association of Governments' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Santa Barbara County Association of Governments' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal

control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management of the Santa Barbara County Association of Governments, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Menlo & Associates, Inc.*

October 31, 2003

The Board of Directors of the  
Santa Barbara County Association of Governments

Report on Compliance with Requirements  
Applicable to Each Major Program, Internal Control Over  
Compliance and on the Schedule of Expenditures of Federal  
Awards in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of the Santa Barbara County Association of Governments with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2003. The Association's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Santa Barbara County Association of Governments' management. Our responsibility is to express an opinion on the Santa Barbara County Association of Governments' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of State and Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Santa Barbara County Association of Governments' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Santa Barbara County Association of Governments' compliance with those requirements.

In our opinion, the Santa Barbara County Association of Governments complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

#### Internal Control Over Compliance

The management of the Santa Barbara County Association of Governments is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Santa Barbara County Association of Governments' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Barbara County Association of Governments as of and for the year ended June 30, 2003, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated October 31, 2003. Our audit was performed for the purpose of forming opinions on the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors and management of the Santa Barbara County Association of Governments, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Morland & Associates, Inc.*

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2003

Federal Grantor/Pass-through Grantor Program Title	CFDA Number	Program Identification Number	Federal Expenditures	Disbursements to Subrecipients
<u>U.S. Department of Transportation</u>				
Passed through the State of California Department of Transportation:				
Highway Planning and Construction -				
FHWA Metropolitan Planning (PL) Funds	20.205	CA-81-X003	\$ 709,728	
CMAQ Federal-Aid Project (Program Maintenance)	20.205	CML-6090(029)	161,018	
CMAQ Federal-Aid Project (Program Expansion)	20.205	CML-6090(028)	3,700	
Total Highway Planning and Construction			<u>874,446</u>	*
Federal Transit Administration				
FTA 49 USC Chapter 53 Section 5303 Funds	20.505	CA-81-X003	127,974	
FTA 49 USC Chapter 53 Section 5313(b) Funds	20.505	CA-81-X003	12,764	
Total Federal Transit Administration			<u>140,738</u>	
Total U.S. Department of Transportation			<u>1,015,184</u>	
Total Expenditures of Federal Awards			<u>\$ 1,015,184</u>	

\* Major program

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2003

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the Santa Barbara County Association of Governments (SBCAG). All awards received directly from federal agencies, as well as those passed through other government agencies to SBCAG, are included in the accompanying schedule.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting.

**Santa Barbara County Association of Governments  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2003**

**I. SUMMARY OF AUDIT RESULTS**

**A. Financial statements**

1. Type of auditors' report issued: unqualified
2. Internal control over financial reporting:
  - a. Material weakness(es) identified?       yes   x  no
  - b. Reportable condition(s) identified not considered to be material weaknesses?       yes   x  none reported
3. Noncompliance material to financial statements noted?       yes   x  no

**B. Federal Awards**

1. Internal control over major programs:
  - a. Material weakness(es) identified?       yes   x  no
  - b. Reportable condition(s) identified not considered to be material weaknesses?       yes   x  none reported
2. Type of auditors' report issued on compliance for major programs: unqualified
3. Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?       yes   x  no
4. Identification of major program:
 

CFDA Number(s)	Name of Federal Program or Cluster
20.205	Highway Planning and Construction
5. Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000
6. Auditee qualified as low-risk auditee?   x  yes       no

**Santa Barbara County Association of Governments  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2003**

**II. FINDINGS – FINANCIAL STATEMENT AUDIT**

None

**III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD  
PROGRAM AUDIT**

None