



■ 260 North San Antonio Road., Suite B ■ Santa Barbara, CA ■ 93110
■ Phone: 805/961-8900 ■ Fax: 805/961-8901 ■ www.sbcag.org

STAFF REPORT

SUBJECT: FY 2006-07 Financial Reports

MEETING DATE: February 21, 2008

AGENDA ITEM: 6E

STAFF CONTACT: Martha Gibbs

RECOMMENDATION:

Receive and file SBCAG's audited Annual Financial Report and Single Audit Report for FY 2006-07.

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 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, 2007, and the respective changes in financial position 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 grants (major programs). The results of these procedures are documented in the attached Single Audit Report. No findings were noted.

COMMITTEE REVIEW: None



Annual Financial Report

Fiscal Year Ended June 30, 2007

260 North San Antonio Road, Suite B
Santa Barbara, CA 93110
T.805.961.8900 F.805.961.8901
www.sbcag.org



SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

ANNUAL FINANCIAL REPORT

JUNE 30, 2007

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December 14, 2007

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 and each major fund of the Santa Barbara County Association of Governments (Association) as of and for the year ended June 30, 2007, 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 and each major fund of the Santa Barbara County Association of Governments as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2007 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing 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 schedule listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The major fund budgetary comparison schedule 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.

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, 2007. We encourage readers to consider the information presented here in conjunction with the rest of the report.

Financial Highlights

- The SBCAG's assets exceeded its liabilities at the close of the most recent fiscal year by \$19,431,886.
- The SBCAG's net assets increased by \$37,693 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 \$36,538,266, an increase of \$5,077,790 in comparison with the prior year. Approximately 23% of this total amount or \$8,653,691 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 \$1,187,198 or 56% 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 timing 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, all of which are considered to be major funds, and the Debt Service Fund a major fund. 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 15-28 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. The table below presents the SBCAG’s net assets at June 30, 2007 and June 30, 2006.

Net Assets:

	<u>Governmental Activities</u>	
	2007	2006
Current and other assets	\$ 42,236,289	\$ 35,792,335
Capital assets, net	3,280,974	3,580,178
Total assets	<u>45,517,263</u>	<u>39,372,513</u>
Long-term liabilities outstanding	20,360,246	15,820,028
Other liabilities	5,725,131	4,158,292
Total liabilities	<u>26,085,377</u>	<u>19,978,320</u>
Net assets:		
Invested in capital assets	3,280,974	3,580,178
Restricted	27,882,006	24,053,574
Unrestricted	<u>(11,731,094)</u>	<u>(8,239,559)</u>
	<u>\$ 19,431,886</u>	<u>\$ 19,394,193</u>

The SBCAG’s assets exceeded liabilities by \$19,431,886 at the close of the current fiscal year. The increase in net assets is due primarily to a decrease in long-term debt after a \$3,840,000 principal payment on the bonds and substantial increases in State Transit Assistance (STA) and Ordinance Number One Highway Development Fund cash balances from previous years.

Overall Capital Assets experienced a decrease of \$299,204 from prior year primarily due to depreciation and disposals. In addition to depreciation and disposals, no significant purchases were made as compared to last year's implementation and installation of call boxes throughout Santa Barbara County.

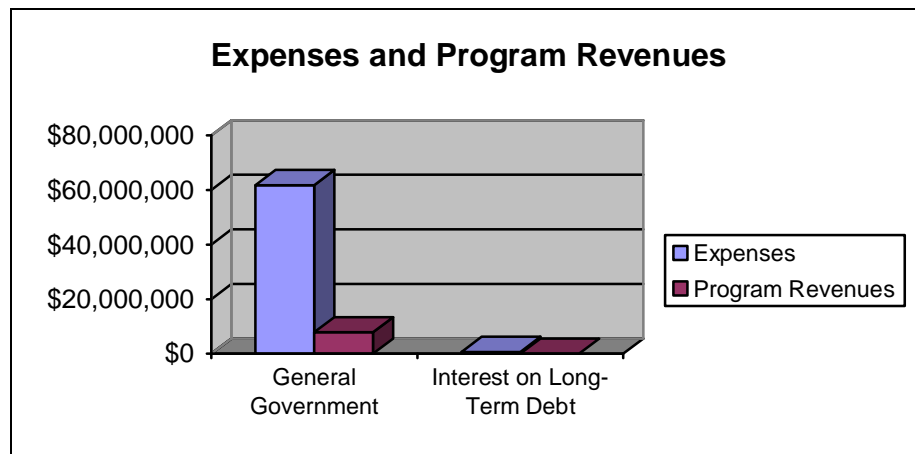
During the current fiscal year, the SBCAG's net assets increased by \$37,693. This increase is due to several factors which both increase and decrease net assets of governmental activities. The net change in capital assets, deferred revenues reversed from governmental funds, transactions relating to long term debt and a new bond issuance all contributed to the increase.

The following table demonstrates the changes in SBCAG's net assets for the years ended June 30, 2007 and June 30, 2006.

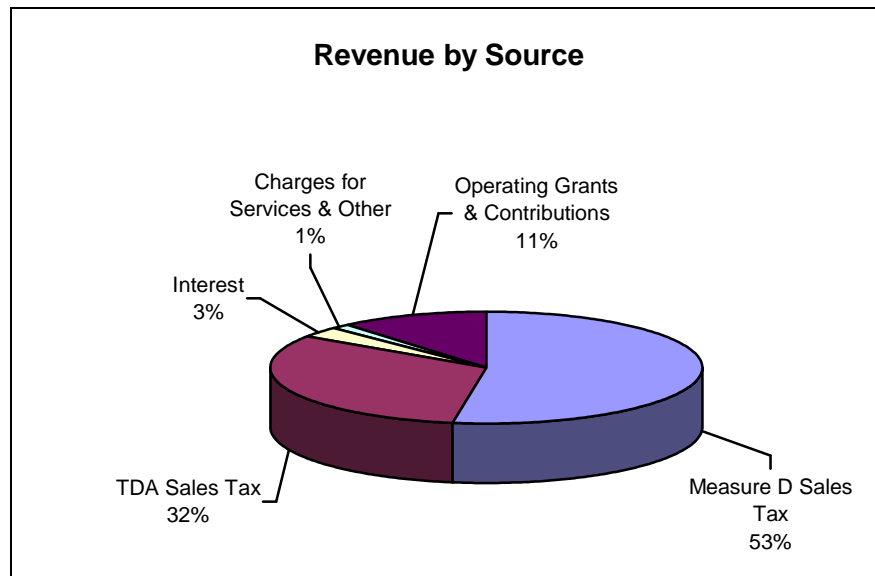
Changes in Net Assets:

	Governmental Activities	
	2007	2006
Revenues:		
Program revenues		
Charges for services	\$ 858,597	\$ 755,300
Operating grants and contributions	6,979,351	7,544,905
General revenues:		
TDA sales tax	19,964,886	16,353,212
Measure D sales tax	32,760,076	31,009,268
Investment earnings	1,866,639	864,526
Other	25,771	16,561
Total revenues	<u>62,455,320</u>	<u>56,543,772</u>
Expenses:		
General government	61,756,077	49,757,404
Interest on long-term debt	661,550	601,759
Total expenses	<u>62,417,627</u>	<u>50,359,163</u>
Increase in net assets	37,693	6,184,609
Net assets - beginning	19,394,193	13,209,584
Net assets - ending	<u>\$ 19,431,886</u>	<u>\$ 19,394,193</u>

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 \$36,538,266, an increase of \$5,077,790 in comparison with the prior year. Approximately 23% of this total amount or \$8,653,691 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the 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 (\$26,238,790); to pay debt service (\$1,643,216); and for other restricted or designated purposes (\$2,569).

The General Fund is the chief operating fund of the SBCAG. At the end of the current fiscal year, total fund balance reached \$1,187,198, all of which is unreserved. 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 56% of total General Fund expenditures.

During the current fiscal year the SBCAG's General Fund balance increased by \$83,020. This is primarily due to expenditures being less than revenues received.

The fund balance of the Ordinance Number One Highway Development Fund increased by \$5,707,849. This is primarily due to expenditures in the fund being less than revenues received and the issuance of a new bond of approximately 8.2 million.

The fund balance of the Local Transportation Fund (LTF) decreased by \$654,908. Fund balances in this fund are comprised of revenues received but not disbursed to sub-recipients for amounts over control

totals established by resolution. The LTF funds received fell short of the revenue allocations anticipated and control totals were never reached. As a result, all funds received were disbursed to recipients.

The Surface Transportation Program (STP) experienced a decrease in fund balance of \$1,200,288. Claims for STP funds were greater than the revenues received in the current fiscal year and were partially funded by accumulated program revenues from prior years. The balance in this fund is restricted for specific transportation related projects.

General Fund Budgetary Highlights

There were no significant appropriation adjustments necessary in the general fund budget. Adopted appropriations were adjusted by approximately \$32,200 to cover an unanticipated salary adjustment. All other adopted appropriations were sufficient to cover all general fund operations during the fiscal year.

Intergovernmental revenues were increased by \$54,100 to reflect Federal and local governmental funding which became available after the development of budgets.

Total General Fund expenditures were slightly less than anticipated which prevented the need to draw upon existing fund balances. At the end of the fiscal year the General Fund experienced an increase to available fund balance of \$83,020.

Capital Asset and Debt Administration

Capital assets. The SBCAG's investment in capital assets as of June 30, 2007, amounts to \$3,280,974, net of accumulated depreciation. This investment in capital assets includes office equipment, furniture, software, commuter buses, and highway call boxes. The decrease in SBCAG's investments in capital was due to depreciation and disposals.

Capital Assets (net of depreciation):

	Governmental Activities	
	2007	2006
Equipment and furniture	\$ 126,789	\$ 143,026
Vehicles (commuter buses)	2,049,438	2,312,367
Software	4,004	6,886
Callboxes	1,100,743	1,117,899
Total	<u>\$ 3,280,974</u>	<u>\$ 3,580,178</u>

Additional information on the SBCAG's capital assets can be found in Note II.C. on page 22 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 \$20,360,246. Of this amount, \$20,160,165 is attributable to both the Series 2003 and Series 2006 bonds, which are secured by Measure D sales tax revenues. The Series 2003 sales tax revenue bonds were issued to advance refund outstanding Series 1993 bonds. The refunding of the Series 2003 bonds reduced future debt service expenditures by taking advantage of favorable interest rates available at that time. In October 2006, the SBCLTA issued \$8.2 million of limited tax bonds for use in delivering projects in the Measure D Regional Program. The Series 2006 bond issue will be used to provide sufficient funding to eliminate \$1.6 million in cash balance deficits anticipated in 2007 and approximately \$6.6 million in additional funding to act as a contingency for delivering the remaining Measure D projects. The Series 2006 bonds were issued at an interest rate of approximately 3.46% with the same maturity date of the 2003 issue of March 15, 2010.

The Series 2003 bonds have been assigned the following ratings: Moody's Investors Service – "Aaa" and Standard & Poor's Corporation – "AAA" pursuant to the provisions of a municipal bond insurance policy, with underlying ratings of "A1" and "AA-", respectively. Moody's Investors Service and the Standards & Poor's Rating Services have assigned the ratings of "Aaa" and "AAA" to the Series 2006 Bonds pursuant to the provision of the municipal bond insurance policy. Moody's and Standard & Poor's have assigned underlying ratings of "Aa3" and "AA", respectively to the issue.

The remaining balance of long-term liabilities is made up of \$200,081 in employee compensated absences.

Additional information on the SBCAG's long-term liabilities can be found in Note II.F. on pages 24-25 of this report.

Economic Factors and Next Year's Budgets and Rates

The revenue and expenditure projections incorporated into the FY 2007-08 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 adjustments to expenditures to reflect the various stages of ongoing and 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 2007-08 projects a combined decrease in fund balance of \$2,483,500 with \$56,550 of this decrease attributable to the General Fund, \$460,600 attributable to Traffic Solutions, and \$2,048,950 attributable to the LTA Capital Projects Fund for highway improvement projects.

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 Finance Officer at 260 N. San Antonio Road, Suite B, Santa Barbara, CA 93110.

Basic Financial Statements

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments	\$ 30,203,040
Cash and investments held by bond trustee	5,429,002
Receivables	6,354,461
Deferred charges	249,786
Capital assets, net of depreciation	3,280,974
Total assets	<u>45,517,263</u>
LIABILITIES:	
Accounts payable and accrued liabilities	5,446,152
Interest payable	278,979
Non-current liabilities:	
Due within one year	3,934,688
Due in more than one year	16,425,558
Total liabilities	<u>26,085,377</u>
NET ASSETS:	
Invested in capital assets	3,280,974
Restricted for:	
Debt service	1,643,216
Future projects	26,238,790
Unrestricted	(11,731,094)
Total net assets	<u>\$ 19,431,886</u>

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

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Statement of Activities
For the Year Ended June 30, 2007

<u>Functions/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses), Revenues and Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
General government	\$ 61,756,077	\$ 858,597	\$ 6,979,351	\$ (53,918,129)
Interest on long-term debt	661,550	-	-	(661,550)
Total governmental activities	<u>\$ 62,417,627</u>	<u>\$ 858,597</u>	<u>\$ 6,979,351</u>	<u>(54,579,679)</u>
		General revenues:		
		TDA sales tax		19,964,886
		Measure D sales tax		32,760,076
		Investment earnings		1,866,639
		Other		25,771
		Total general revenues		<u>54,617,372</u>
		Change in net assets		37,693
		Net assets - beginning		19,394,193
		Net assets - ending		<u>\$ 19,431,886</u>

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, 2007

	Special Revenue Funds		
	General Fund	Local Transportation Fund	State Transit Assistance Fund
ASSETS:			
Cash and investments	\$ 688,031	\$ -	\$ 2,770,825
Cash and investments held by bond trustee	-	-	-
Receivables:			
Accounts	1,698	-	-
Interest	8,636	3,061	26,441
Due from other funds	64,849	-	-
Due from other governments	562,006	-	1,125,065
Total assets	\$ 1,325,220	\$ 3,061	\$ 3,922,331
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 138,022	\$ -	\$ -
Due to other funds	-	-	-
Due to other governments	-	492	3,709,107
Deferred revenue	-	-	-
Total liabilities	138,022	492	3,709,107
Fund balances:			
Reserved for debt service	-	-	-
Reserved for future projects	-	-	-
Unreserved, designated for apportionment	-	2,569	-
Unreserved, undesignated	1,187,198	-	213,224
Total fund balances	1,187,198	2,569	213,224
Total liabilities and fund balances	\$ 1,325,220	\$ 3,061	\$ 3,922,331

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

<u>Special Revenue Funds</u>				<u>Special Revenue Funds</u>	
<u>Ordinance Number One Fund</u>	<u>Ordinance Number One Highway Development Fund</u>	<u>Surface Transportation Program Fund</u>	<u>Debt Service Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 9,110,610	\$ 15,874,970	\$ -	\$ 1,758,604	\$ 30,203,040
-	3,787,182	-	1,641,820	-	5,429,002
-	-	-	-	3,240	4,938
2,836	113,073	204,226	1,396	19,378	379,047
-	-	-	-	-	64,849
-	-	4,183,461	-	99,944	5,970,476
<u>\$ 2,836</u>	<u>\$ 13,010,865</u>	<u>\$ 20,262,657</u>	<u>\$ 1,643,216</u>	<u>\$ 1,881,166</u>	<u>\$ 42,051,352</u>
\$ -	\$ 182,933	\$ -	\$ -	\$ 97,580	\$ 418,535
-	23,421	-	-	41,428	64,849
-	-	1,318,018	-	-	5,027,617
-	-	-	-	2,085	2,085
<u>-</u>	<u>206,354</u>	<u>1,318,018</u>	<u>-</u>	<u>141,093</u>	<u>5,513,086</u>
-	-	-	1,643,216	-	1,643,216
-	12,804,511	13,434,279	-	-	26,238,790
-	-	-	-	-	2,569
2,836	-	5,510,360	-	1,740,073	8,653,691
<u>2,836</u>	<u>12,804,511</u>	<u>18,944,639</u>	<u>1,643,216</u>	<u>1,740,073</u>	<u>36,538,266</u>
<u>\$ 2,836</u>	<u>\$ 13,010,865</u>	<u>\$ 20,262,657</u>	<u>\$ 1,643,216</u>	<u>\$ 1,881,166</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. 3,280,974
 Deferred revenue is not available to pay for current period expenditures and, therefore, is not recognized in the funds. 2,085
 Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. (20,360,246)
 Bond issuance costs are capitalized and amortized over the life of the debt. 249,786
 Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. (278,979)
 Net assets of governmental activities \$ 19,431,886

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue Funds		
	General Fund	Local Transportation Fund	State Transit Assistance Fund
REVENUES:			
Transportation Development Act tax	\$ 405,318	\$ 15,066,031	\$ 4,493,537
Measure D sales tax	327,675	-	-
Use of money and property	45,205	15,150	84,601
Intergovernmental	1,401,433	-	-
Other	65,791	-	-
Total revenues	2,245,422	15,081,181	4,578,138
EXPENDITURES:			
Current:			
Salaries and benefits	1,530,052	-	-
Services and supplies	518,715	1,800	-
Disbursements to sub-recipients	-	15,734,289	4,531,015
Other	5,742	-	-
Capital outlay	10,087	-	-
Debt service:			
Principal	47,806	-	-
Interest	-	-	-
Costs of issuance	-	-	-
Total expenditures	2,112,402	15,736,089	4,531,015
Excess (deficiency) of revenues over (under) expenditures	133,020	(654,908)	47,123
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	(50,000)	-	-
Proceeds of debt issuance	-	-	-
Total other financing sources (uses)	(50,000)	-	-
Net changes in fund balances	83,020	(654,908)	47,123
Fund balances, beginning of year	1,104,178	657,477	166,101
Fund balances, end of year	\$ 1,187,198	\$ 2,569	\$ 213,224

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

<u>Special Revenue Funds</u>				<u>Special Revenue Funds</u>	
<u>Ordinance Number One Fund</u>	<u>Ordinance Number One Highway Development Fund</u>	<u>Surface Transportation Program Fund</u>	<u>Debt Service Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,964,886
22,852,525	9,579,876	-	-	-	32,760,076
10,681	692,699	925,671	13,749	78,883	1,866,639
-	-	4,183,461	-	1,354,437	6,939,331
-	39	-	-	858,558	924,388
<u>22,863,206</u>	<u>10,272,614</u>	<u>5,109,132</u>	<u>13,749</u>	<u>2,291,878</u>	<u>62,455,320</u>
-	113,645	-	-	415,071	2,058,768
3,000	7,259,326	-	-	1,612,029	9,394,870
22,859,915	-	6,309,420	-	-	49,434,639
-	582	-	-	201,980	208,304
-	1,800	-	-	102,638	114,525
-	-	-	3,840,000	-	3,887,806
-	-	-	450,188	-	450,188
-	160,011	-	-	-	160,011
<u>22,862,915</u>	<u>7,535,364</u>	<u>6,309,420</u>	<u>4,290,188</u>	<u>2,331,718</u>	<u>65,709,111</u>
<u>291</u>	<u>2,737,250</u>	<u>(1,200,288)</u>	<u>(4,276,439)</u>	<u>(39,840)</u>	<u>(3,253,791)</u>
-	-	-	4,522,982	888,000	5,410,982
-	(5,360,982)	-	-	-	(5,410,982)
-	8,331,581	-	-	-	8,331,581
<u>-</u>	<u>2,970,599</u>	<u>-</u>	<u>4,522,982</u>	<u>888,000</u>	<u>8,331,581</u>
291	5,707,849	(1,200,288)	246,543	848,160	5,077,790
2,545	7,096,662	20,144,927	1,396,673	891,913	31,460,476
<u>\$ 2,836</u>	<u>\$ 12,804,511</u>	<u>\$ 18,944,639</u>	<u>\$ 1,643,216</u>	<u>\$ 1,740,073</u>	<u>\$ 36,538,266</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, 2007

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

Net change in fund balances - total governmental funds (p. 13): \$ 5,077,790

- (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.

Capital outlay	120,449	
Depreciation	(417,948)	
Loss on disposal of capital assets	<u>(1,705)</u>	
	<u>(299,204)</u>	(299,204)

- (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. Revenues reported in the governmental funds that were recognized or removed from the Statement of Activities in the prior year have been reversed to prevent double counting. (137,790)
- (3) The increase in interest payable does not decrease current financial resources but is recorded as an increase in expense in the Statement of Activities. (147,674)
- (4) Principal payments on long-term debt use current financial resources of governmental funds but have no effect on net assets. 3,887,806
- (5) Governmental funds report the effect of bond issuance costs, premiums, and other similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. 21,101
- (6) The net increase in other long-term liabilities does not use current financial resources and, therefore, is no reported as an expenditure in governmental funds. (32,755)
- (7) The issuance of long-term debt increases current financial resources in governmental funds but has not effect on net assets (8,331,581)

Change in net assets of governmental activities (p. 9) \$ 37,693

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

Notes to the Financial Statements

Notes to the Financial Statements

June 30, 2007

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 blended component unit, the Santa Barbara County Local Transportation Authority (SBCLTA). A blended 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.

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

Notes to the Financial Statements

June 30, 2007

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 90 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 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, 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 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 Number 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 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 revenues, which is first used to

Notes to the Financial Statements

June 30, 2007

cover the principal and interest payments on the outstanding bonds. The remainder is used to finance the development and construction of previously approved 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. Cash and Investments

The SBCAG's cash and cash equivalents include 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. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute.

Some SBCAG funds are required by legal provisions 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" (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 with the exception of a \$2,085 payment that relates to reimbursement for call box damage.

Notes to the Financial Statements

June 30, 2007

At June 30, 2007, the SBCAG had \$5,970,476 of intergovernmental accounts receivable due from federal, state and local governments.

3. Capital Assets

Capital assets, which include general office equipment, furniture, software, highway call boxes, and commuter buses, 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
Vehicles (commuter buses)	12 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as issuance costs, in the period issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual net proceeds received, are

Notes to the Financial Statements

June 30, 2007

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. 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 \$32,200. All of this supplemental appropriation was related to an increase in the salary and benefit accounts. Any deficiency caused by expenditures and other financing uses being greater than revenues and other financing sources is financed by beginning available fund balances.

III. Detailed Notes on All Funds

A. Cash and Investments

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 30,203,040
Cash and investments held by Bond Trustee	<u>5,429,002</u>
Total Cash and Investments	<u><u>\$ 35,632,042</u></u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 450
Cash equivalents in County Investment Pool	30,202,590
Investments held by Bond Trustee	<u>5,429,002</u>
Total cash and investments	<u><u>\$ 35,632,042</u></u>

Notes to the Financial Statements

June 30, 2007

1. Investments Authorized by SBCAG's Investment Policy

The SBCAG investment policy only authorizes investment in the local government investment pool administered by the Santa Barbara County Treasurer. The Santa Barbara County Treasurer's investment policy does not contain any specific provision intended to limit SBCAG's exposure to interest rate risk, credit risk, and concentration of credit risk. All investments are made in accordance with the California Government Code and in general the Treasurer's policy is more restrictive than State Law.

2. Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provision of the California Government Code or Santa Barbara County Treasurer investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
US Treasury Obligations	None	None	None
Money Market Funds	N/A	N/A	N/A

3. Disclosures Relating to 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. As of year end, the weighted average days to maturity (WAM) of the investments contained in the Santa Barbara County Treasurer investment pool was approximately 433 days at June 30, 2007.

Information about the sensitivity of the fair values of the SBCAG's investment to market interest rate fluctuation is provided by the following table that shows the maturity date of each investment:

<u>Investment Type</u>		<u>Remaining Maturity</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Cash equivalents in County Investment Pool	\$ 30,202,590	\$ 17,819,528	\$ 5,436,466	\$ 6,946,596
Held by Bond Trustee:				
US Treasury Obligations	1,022,596	1,022,596	-	-
Money Market Funds	4,406,406	4,406,406	-	-
	<u>\$ 35,631,592</u>	<u>\$ 23,248,530</u>	<u>\$ 5,436,466</u>	<u>\$ 6,946,596</u>

4. Disclosures Relating to Credit Risk and Concentration of 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. The Santa Barbara County Treasurer mitigates

Notes to the Financial Statements

June 30, 2007

these risks by holding a diversified portfolio as set forth in its investment policy dated January 2005. This investment policy stipulates specific parameters by type of investment for credit quality, maturity length and maximum percentage investments. In addition, the investment policy stipulates that no more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies, and sponsored enterprises.

Investment Type		Minimum Legal Rating	Exempt from Disclosure	Rating as of Year End	
				AAA	Not Rated
Cash equivalents in County Investment Pool	\$ 30,202,590			\$ -	\$ 30,202,590
Held by Bond Trustee:					
US Treasury Obligations	1,022,596			-	1,022,596
Money Market Funds	4,406,406	n/a		4,406,406	-
	<u>\$ 35,631,592</u>			<u>\$ 4,406,406</u>	<u>\$ 31,225,186</u>

5. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Santa Barbara County Treasurer investment policies do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. At June 30, 2007, SBCAG had no deposits with financial institutions in excess of federal depository insurance limits.

The custodial credit risk for investments is the risk that, in the event of failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. All securities held in the Santa Barbara County Treasurer investment pool are deposited in trust for safekeeping with a custodial bank different from the County's primary bank. Securities are not held in broker accounts.

6. Investment in Santa Barbara County Treasurer Investment Pool

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

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.

TA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to the Financial Statements

June 30, 2007

At June 30, 2007, 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>
Service Authority for Freeway Emergencies:			
Reimbursement for call box damage	<u>\$ -</u>	<u>\$ 2,085</u>	<u>\$ 2,085</u>

C. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Equipment/Furniture	\$ 299,147	\$ 20,901	\$ 3,313	\$ 316,735
Vehicles	3,092,157	-	-	3,092,157
Software	58,893	2,378	15,399	45,872
Call Boxes	1,117,899	97,170	-	1,215,069
Total capital assets	<u>4,568,096</u>	<u>120,449</u>	<u>18,712</u>	<u>4,669,833</u>
Less accumulated depreciation:				
Equipment/Furniture	(156,121)	(35,433)	(1,608)	(189,946)
Vehicles	(779,790)	(262,929)	-	(1,042,719)
Software	(52,007)	(5,260)	(15,399)	(41,868)
Call Boxes	-	(114,326)	-	(114,326)
Total accumulated depreciation	<u>(987,918)</u>	<u>(417,948)</u>	<u>(17,007)</u>	<u>(1,388,859)</u>
Total capital assets, net of depreciation	<u>\$ 3,580,178</u>	<u>\$ (297,499)</u>	<u>\$ 1,705</u>	<u>\$ 3,280,974</u>

Depreciation expense of \$417,948 was charged to the general government function.

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances at June 30, 2007, was as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Ord. No. One Hwy Development Fund	\$ 23,421
General Fund	Non-Major Governmental Funds	<u>41,428</u>
		<u>\$ 64,849</u>

Notes to the Financial Statements

June 30, 2007

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:

Transfer From	Transfer To	Amount
Ord. No. One Hwy Development Fund	Debt Service Fund Non-Major Governmental Funds	\$ 4,522,982 838,000 <u>5,360,982</u>
General Fund	Non-Major Governmental Funds	 50,000 <u>50,000</u>
		<u><u>\$ 5,410,982</u></u>

Transfers are used to (1) 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 and to (2) move revenues from funds required by statute or budget to collect them in Traffic Solutions Fund for expenditures authorized by the budget

E. Lease Obligations

The SBCAG leases its office space under a noncancelable operating lease with the County of Santa Barbara. This lease went into effect in July 2003 and expires July 2033. The total cost to lease office space and on-site storage facilities for the year ended June 30, 2007, was \$106,644.

During the current period SBCAG continues to lease a copy machine under a lease agreement expiring July 2011. This lease went into effect in July of 2006 with a total yearly cost of \$4,084.

Future minimum lease payments for these leases as of June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2008	\$ 110,961
2009	110,961
2010	110,961
2011	110,961
2012	106,877
2013-2033	2,165,224
Total	<u><u>\$ 2,715,945</u></u>

Notes to the Financial Statements

June 30, 2007

F. Long-Term Liabilities

Long-term liabilities at June 30, 2007, consist of 2003 sales tax revenue refunding bonds, Series 2006 bond issue and employee compensated absences.

In September of 2003, the SBCLTA issued sales tax refunding revenue bonds in the amount of \$27,480,000 in order to advance refund all outstanding Series 1993 bonds. The refunding bonds were issued at interest rates ranging from 2.00% to 3.25% with an ending maturity date of March 15, 2010. Advance refunding was undertaken to reduce total debt service payments on the Series 1993 bonds over the life of the new debt. Although the Series 1993 bonds were defeased and removed from the statement of net assets, the reacquisition price exceeded the net carrying amount. The amount in excess of the reacquisition price is being amortized over the life of the new debt issue.

In addition to the Refunding Bonds SBCLTA issued \$8,200,000 of limited tax bonds for use in delivering projects in the Measure D regional Program. This new bond issue will be used to provide sufficient funding to eliminate cash balance deficits anticipated in 2007 and to allow additional funding to act as a contingency for delivering the remaining Measure D projects. The Series 2006 Bonds were issued at an interest rate of approximately 3.46% with the same maturity date of the Refunding Bonds of March 15, 2010.

Both the Series 2003 Refunding Bonds and the Series 2006 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 2003 Refunding Revenue Bonds to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2008	\$ 3,915,000	\$ 373,388	\$ 4,288,388
2009	4,030,000	255,938	4,285,938
2010	4,155,000	135,038	4,290,038
Total	<u>\$ 12,100,000</u>	<u>\$ 764,364</u>	<u>\$ 12,864,364</u>

Debt service requirements on the Series 2006 Revenue Bonds to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2008	\$ -	\$ 455,556	\$ 455,556
2009	4,020,000	328,000	4,348,000
2010	4,180,000	167,200	4,347,200
Total	<u>\$ 8,200,000</u>	<u>\$ 950,756</u>	<u>\$ 9,150,756</u>

In prior periods, the SBCAG determined it was 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 a result of the refunding, no further yield reduction payments are necessary.

Notes to the Financial Statements

June 30, 2007

SBCAG is not anticipating the need for yield reduction payments on the 2006 Bond issue. In accordance with certain Treasury regulations, a two year spending exception to yield reduction payments can be obtained if certain expenditure requirements are followed. SBCAG is closely monitoring its expenditures to ensure the proceeds of this bond issue are used in accordance with this regulation.

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

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>Balance 7/1/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/07</u>	<u>Due Within One Year</u>
Bonds payable:					
2003 Refunding Revenue bonds	\$ 15,940,000	\$ -	\$ 3,840,000	\$ 12,100,000	\$ 3,915,000
2006 Revenue bonds	-	8,200,000	-	8,200,000	-
Deferred amounts:					
Unamortized premium	179,237	131,581	73,470	237,348	-
On refunding	(514,341)	137,158		(377,183)	-
Total bonds payable	15,604,896	8,468,739	3,913,470	20,160,165	3,915,000
Compensated absences	167,326	160,586	127,831	200,081	19,688
Note payable	47,806		47,806	-	-
Total	<u>\$ 15,820,028</u>	<u>\$ 8,629,325</u>	<u>\$ 4,089,107</u>	<u>\$ 20,360,246</u>	<u>\$ 3,934,688</u>

IV. 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.

Notes to the Financial Statements

June 30, 2007

The SBCAG typically reimburses the County of Santa Barbara each year for a share of County overhead costs. For the year ended June 30, 2007, \$55,000 was paid to the County for allocated overhead costs.

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, 2007, 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 expenditure 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, the SBCLTA has entered into various right-of-way, engineering, and construction agreements. At June 30, 2007, the aggregate outstanding balances of these agreements are \$2,142,271. This amount is comprised of contracts for the final purchase, implementation and yearly operations of call boxes throughout the county of \$416,188; and \$1,674,600 for design services and support on construction. Additional agreements totaling approximately \$51,483 are also outstanding as of June 30, 2007. These services deal primarily with consultant services for various programs SBCAG is responsible for.

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 values of the plan assets and any related liability to plan participants have been excluded from the SBCAG's financial statements.

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

Notes to the Financial Statements

June 30, 2007

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 several retirement plans, five are currently available to new employees. SBCAG employees are enrolled in General Plan 5B. All plans provide benefits as defined by the County Employees Retirement 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 the Board of Retirement that is a fiduciary for the accounting and control of member and employer contributions, investment income and member benefits. 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 3916 State Street, Suite 210, Santa Barbara, CA 93105.

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 member's 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.

Employer Contribution

Employer contribution rates are as follows:

Open for New Enrollment

General Plan 5B	County: 17.26%	All new County general employees enrolled in plan.
Safety Plan 4B	County: 28.83%	All new County safety employees enrolled in plan
Safety Plan 4C	County 31.86%	All new County safety employees enrolled in plan
Safety Plan 4D	County 31.60%	All new County safety employees enrolled in plan
APCD Plan 2	APCD: 20.45%	All new APCD employees enrolled in plan.

Closed to New Enrollment

General Plan 5A	County: 17.26%	County employees hired before October 1994 continue in plan.
General Plan 2	County: 10.81%	Non-contributory; employees hired before January 1999 may continue in plan.
Safety Plan 4A	County: 34.04%	County safety employees hired before October 1994 may continue in plan.
APCD Plan 1	APCD: 19.93%	Employees hired before July 1996 may continue in plan.

Notes to the Financial Statements

June 30, 2007

Annual Pension Cost

The annual required contribution for the current year was determined as part of an actuarial valuation performed as of June 30, 2006. 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 4.0%; and (3) salary merit and longevity increases of 2%. Unfunded liabilities are amortized using the level percentage of the projected payroll over fifteen years from June 30, 2006. Changes in actuarial gains and loss assumptions are spread over a fifteen 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>
6/30/2005	\$ 186,333	100%
6/30/2006	225,799	100%
6/30/2007	262,903	100%

Required Supplementary Information

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, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Transportation Development Act tax	\$ 394,400	\$ 394,400	\$ 405,318	\$ 10,918
Measure D sales tax	320,000	320,000	327,675	7,675
Use of money and property	20,000	20,000	33,330	13,330
Intergovernmental	1,350,400	1,404,500	1,241,668	(162,832)
Other	722,000	732,000	693,501	(38,499)
Total revenues	<u>2,806,800</u>	<u>2,870,900</u>	<u>2,701,492</u>	<u>(169,408)</u>
EXPENDITURES:				
Current:				
Salaries and benefits	2,064,300	2,096,500	2,056,806	(39,694)
Services and supplies	797,800	797,800	673,943	(123,857)
Other	7,180	7,180	5,743	(1,437)
Capital outlay	11,400	11,400	11,400	-
Debt service:				
Principal retirement	47,810	47,810	47,806	(4)
Total expenditures	<u>2,928,490</u>	<u>2,960,690</u>	<u>2,795,698</u>	<u>(164,992)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(121,690)</u>	<u>(89,790)</u>	<u>(94,206)</u>	<u>(4,416)</u>
OTHER FINANCING SOURCES:				
Transfers out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Net change in fund balance	(171,690)	(139,790)	(144,206)	(4,416)
Fund balance, beginning of year	833,802	833,802	833,802	-
Fund balance, end of year	<u>\$ 662,112</u>	<u>\$ 694,012</u>	<u>\$ 689,596</u>	<u>\$ (4,416)</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Measure D sales tax	\$ 9,356,000	\$ 9,356,000	\$ 9,550,870	\$ 194,870
Use of money and property	125,000	133,300	491,088	357,788
Other	-	-	39	39
Total revenues	9,481,000	9,489,300	10,041,997	552,697
EXPENDITURES:				
Current:				
Services and supplies	11,783,800	11,783,800	7,747,079	(4,036,721)
Other	800	800	571	(229)
Capital outlay	1,800	1,800	1,800	-
Total expenditures	11,786,400	11,786,400	7,749,450	(4,036,950)
Excess (deficiency) of revenues over (under) expenditures	<u>(2,305,400)</u>	<u>(2,297,100)</u>	<u>2,292,547</u>	<u>4,589,647</u>
OTHER FINANCING USES:				
Transfers out	(5,128,000)	(5,333,000)	(5,331,976)	(1,024)
Proceeds of debt issuance	-	8,319,000	8,318,051	949
Total other financing sources (uses)	(5,128,000)	2,986,000	2,986,075	(75)
Net change in fund balance	(7,433,400)	688,900	5,278,622	4,589,722
Fund balance, beginning of year	7,639,901	7,639,901	7,639,901	-
Fund balance, end of year	\$ 206,501	\$ 8,328,801	\$ 12,918,523	\$ 4,589,722

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

Note to Required Supplementary Information

June 30, 2007

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 \$32,200. This supplemental appropriation is attributed to a salary and benefit adjustment made after original adoption of the General Fund budget. 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. Excess of Expenditures Over Appropriations

For the year ended June 30, 2007 total expenditures did not exceed total appropriations for any funds with adopted budgets.

C. 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 are presented for the following major governmental funds.

	<u>General Fund</u>	Ord. No. One Highway <u>Development</u>
Fund balances (budgetary basis)	\$ 689,596	\$12,918,523
Basis differences:		
Revenue accruals	637,189	113,073
Expenditure accruals	(138,022)	(206,353)
Fair value adjustments	(1,565)	(20,732)
Fund balance (GAAP basis)	<u>\$ 1,187,198</u>	<u>\$12,804,511</u>

Supplementary Schedules

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Schedule of Revenues, Expenditures and Change in Fund Balances -
Budget and Actual (Cash Basis)
Debt Service Fund
For the Year Ended June 30, 2007

	Budget Amounts	Actual Amounts	Variance with Final Budget Over (Under)
REVENUES:			
Use of money and property	\$ 5,000	\$ 13,493	\$ 8,493
Total revenues	5,000	13,493	8,493
EXPENDITURES:			
Debt service:			
Principal retirement	3,840,000	3,840,000	-
Interest	450,200	450,188	(12)
Total expenditures	4,290,200	4,290,188	(12)
Excess (deficiency) of revenues over (under) expenditures	(4,285,200)	(4,276,695)	8,505
OTHER FINANCING SOURCES:			
Transfers in	4,495,000	4,522,982	27,982
Total other financing sources:	4,495,000	4,522,982	27,982
Net change in fund balance	209,800	246,287	36,487
Fund balance, beginning of year	1,434,740	1,434,740	-
Fund balance, end of year	\$ 1,644,540	\$ 1,681,027	\$ 36,487
Basis differences:			
Revenue accruals		1,396	
Fair value adjustments		(39,207)	
Fund balance (GAAP basis)		\$ 1,643,216	

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 (SAFE) – 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, 2007

	<u>Service Authority for Freeway Emergencies Fund</u>	<u>Traffic Solutions Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS:			
Cash and investments	\$ 775,088	\$ 983,516	\$ 1,758,604
Receivables:			
Accounts	2,085	1,155	3,240
Interest	7,342	12,036	19,378
Due from other governments	63,456	36,488	99,944
 Total assets	<u>\$ 847,971</u>	<u>\$ 1,033,195</u>	<u>\$ 1,881,166</u>
 LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 25,659	\$ 71,921	\$ 97,580
Due to other funds	12,485	28,943	41,428
Deferred revenue	2,085	-	2,085
 Total liabilities	<u>40,229</u>	<u>100,864</u>	<u>141,093</u>
 Fund balances:			
Unreserved, undesignated	807,742	932,331	1,740,073
 Total fund balances	<u>807,742</u>	<u>932,331</u>	<u>1,740,073</u>
 Total liabilities and fund balances	<u>\$ 847,971</u>	<u>\$ 1,033,195</u>	<u>\$ 1,881,166</u>

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, 2007

	Service Authority for Freeway Emergencies Fund	Traffic Solutions Fund	Total Non-Major Governmental Funds
REVENUES:			
Use of money and property	\$ 29,850	\$ 49,033	\$ 78,883
Intergovernmental	848,642	505,795	1,354,437
Other	26	858,532	858,558
Total revenues	<u>878,518</u>	<u>1,413,360</u>	<u>2,291,878</u>
EXPENDITURES:			
Current:			
Salaries and benefits	65,358	349,713	415,071
Services and supplies	433,024	1,179,005	1,612,029
Other	-	201,980	201,980
Capital outlay	98,064	4,574	102,638
Total expenditures	<u>596,446</u>	<u>1,735,272</u>	<u>2,331,718</u>
Excess (deficiency) of revenues over (under) expenditures	<u>282,072</u>	<u>(321,912)</u>	<u>(39,840)</u>
Other financing uses:			
Transfers in	-	888,000	888,000
Total other financing uses	<u>-</u>	<u>888,000</u>	<u>888,000</u>
Net changes in fund balances	282,072	566,088	848,160
Fund balances, beginning of year	525,670	366,243	891,913
Fund balances, end of year	<u>\$ 807,742</u>	<u>\$ 932,331</u>	<u>\$ 1,740,073</u>

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Schedule of Revenues, Expenditures and Change in Fund Balances -
Budget and Actual (Cash Basis)
Service Authority for Freeway Emergencies
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Over
				(Under)
REVENUES:				
Use of money and property	\$ 11,000	\$ 11,000	\$ 22,410	\$ 11,410
Intergovernmental	1,227,500	1,407,500	1,475,629	68,129
Other	-	-	26	26
	<u>1,238,500</u>	<u>1,418,500</u>	<u>1,498,065</u>	<u>79,565</u>
EXPENDITURES:				
Current:				
Services and supplies	604,200	604,200	557,258	(46,942)
Capital outlay	750,900	750,900	652,754	(98,146)
	<u>1,355,100</u>	<u>1,355,100</u>	<u>1,210,012</u>	<u>(145,088)</u>
Net change in fund balance	(116,600)	63,400	288,053	224,653
Fund balance, beginning of year	488,799	488,799	488,799	-
Fund balance, end of year	<u>\$ 372,199</u>	<u>\$ 552,199</u>	<u>\$ 776,852</u>	<u>\$ 224,653</u>
Basis differences:				
			72,883	
			(40,229)	
			(1,764)	
			<u>\$807,742</u>	

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Schedule of Revenues, Expenditures and Change in Fund Balances -
Budget and Actual (Cash Basis)
Traffic Solutions
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Use of money and property	\$ 10,000	\$ 10,000	\$ 37,723	\$ 27,723
Intergovernmental	557,000	571,000	563,387	(7,613)
Other	754,000	854,000	857,377	3,377
	<u>1,321,000</u>	<u>1,435,000</u>	<u>1,458,487</u>	<u>23,487</u>
EXPENDITURES:				
Current:				
Services and supplies	1,773,700	1,773,700	1,487,264	(286,436)
Other	241,900	241,900	201,966	(39,934)
Capital outlay	268,500	268,500	4,573	(263,927)
	<u>2,284,100</u>	<u>2,284,100</u>	<u>1,693,803</u>	<u>(590,297)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(963,100)</u>	<u>(849,100)</u>	<u>(235,316)</u>	<u>613,784</u>
OTHER FINANCING SOURCES:				
Transfers in	888,000	888,000	888,000	-
	<u>888,000</u>	<u>888,000</u>	<u>888,000</u>	<u>-</u>
Net change in fund balance	(75,100)	38,900	652,684	613,784
Fund balance, beginning of year	333,071	333,071	333,071	-
Fund balance, end of year	<u>\$ 257,971</u>	<u>\$ 371,971</u>	<u>\$ 985,755</u>	<u>\$ 613,784</u>
Basis differences:				
			49,679	
			(100,865)	
			(2,238)	
			<u>\$932,331</u>	