

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

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To the Honorable Board of Supervisors
County of Santa Barbara, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Santa Barbara (the County) for the year ended June 30, 2013, and have issued our report thereon dated August 26, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 9, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements.

As described in Note 1 to the financial statements, the County changed accounting policies related to financial reporting of service concession arrangements by adopting Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, in 2013. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

As described in Note 1 to the financial statements, the County changed accounting policies related to the reporting of equity interest in legally separate organizations by adopting GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, in 2013. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

As described in Note 1 to the financial statements, the County changed accounting policies related to improving financial reporting by contributing to GASB's efforts to codify all sources of accounting principles generally accepted in the United States of America for state and local governments so that they derive from a single source by adopting GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, in 2013. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

As described in Note 1 to the financial statements, the County changed accounting policies related to financial reporting guidance for deferred outflows of resources and deferred inflows of resources by adopting GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in 2013. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

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Certified Public Accountants

As described in Note 1 to the financial statements, the County changed accounting policies related to hedging relationships by adopting GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*, in 2013. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

As described in Note 1 to the financial statements, the County changed accounting policies related to reclassifying as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities by early implementing and adopting GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in 2013. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

As described in Note 1 to the financial statements, the County changed accounting policies related to improving accounting and financial reporting for a governmental entities by adopting GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*, in 2013. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the year-end estimate of accruals for accounts payable, estimate for self-insurance liability, and estimate of contingent settlement liability with the State of California and contract service providers relating to the Santa Barbara County Alcohol, Drug, and Mental Health Services (ADMHS) Fund:

Management's estimate of the year-end payables is based on information received from the individual departments. We evaluated the key factors and assumptions used to develop the estimate of payables in determining that it is reasonable in relation to the financial statements taken as a whole. We also evaluated the self-insurance liability as determined by the County using actuarial reports prepared and provided by an independent third party. Furthermore, we reviewed management's analysis and supporting documents relating to contingent settlement liability with the State of California and contract service providers for ADMHS Fund and determined that it is reasonable and conservative.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 15 Commitments and Contingencies
- Note 25 Change in Accounting Principle

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 26, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Board of Supervisors and management of the County of Santa Barbara and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
August 26, 2013

County of Santa Barbara
Passed Adjusting Journal Entries - Uncorrected Audit Differences
June 30, 2013

Risk Management and Insurance Fund:

Account Name	Debit	Credit
Liability for Self Insurance Claims	\$ 314,676	
Self Insurance Claims Expense		\$ 314,676

ADMHS Fund:

Account Name	Debit	Credit
Accounts Receivable - Intergovernmental	\$ 289,105	
Revenue - Intergovernmental		\$ 289,105