

**SANTA BARBARA COUNTY
AGENDA BOARD LETTER**



Clerk of the Board of Supervisors
Room 407 105 E. Anapamu Street
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:

Department:
Department Number:
Agenda Date:
Placement:
Estimated Time:
Continued Item:

Auditor-Controller
061
September 16, 2003
Departmental
30 minutes
No

TO: Board of Supervisors

FROM: Robert W. Geis, CPA
Auditor-Controller X2100

STAFF CONTACT: Mike Struven
Financial Reporting Division Chief X2134

SUBJECT: Annual County Financial Audit for fiscal year ended June 30, 2003

RECOMMENDATIONS:

C.A. Recommendation: _____

That the Board of Supervisors:

1. Receive and file the County of Santa Barbara Comprehensive Annual Financial Report (CAFR), Financial Highlights, and Annual Financial Report of the Redevelopment Agency for the fiscal year ending June 30, 2003.
2. Receive a presentation by the Auditor's Office that provides an overview of the CAFR, the County's financial position and results of operations for the Fiscal Year ending June 30, 2003.

ALIGNMENT WITH BOARD STRATEGIC PLAN:

The recommendation(s) are primarily aligned with actions required by law or by routine business necessity.

EXECUTIVE SUMMARY & DISCUSSION:

Comprehensive Annual Financial Report of the County of Santa Barbara

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2003 is herewith submitted in compliance with the State of California Government Code Section 25253. This report is important to County government since rating agencies, investors, financial institutions and the public rely upon it. Though complex, the report reveals the County's financial position, results of operations and detailed disclosures. It is prepared in accordance with government accounting standards for consistency among governmental units.

This publication is broken down into three sections: Introductory Section (pages 1-7), Financial Section (pages 8-118), and Statistical Section (pages 119-135).

Your Board contracts for the annual audit of this financial report. The independent auditing firm, KPMG, has issued an unqualified opinion on the County's financial statements

Last year, for the second time, we conformed the financial statements to Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34). In the GASB’s view, the objective of the new model is to enhance the clarity and usefulness of government financial statements to the citizenry, oversight bodies, investors and creditors. Please note two major distinctions from prior CAFR’s:

- Management’s Discussion and Analysis provides the reader with a top-level overview of the County’s financial position and results of operations for the fiscal year.
- The Government-wide Statement of Net Assets and Statement of Activities provide the reader with a consolidated view of the County and distinguish between Governmental activities and Business-type activities. The entity-wide perspective shown in these two statements, combined with fund financial statements and other financial documents prepared by the County, provide a detailed picture of the County’s financial position and operations.

This table illustrates the various financial reporting requirements in use by the County and highlights their similarities and differences.

	State Controller Reports	Performance Based Budget	Fund Statements (CAFR)	Gov’t Wide Statements (CAFR)
Purpose	Uniform reporting by fund, function, activity and object level	Reporting by function, dept., cost center, object level	Major and nonmajor funds, functions, object level, budget vs actual	Consolidated statements of net assets and activities for governmental & business activities
Focus	Legal appropriations	Appropriations & General fund contribution	Available resources	Broad overview of the County’s finances
Accrual basis	Modified	Modified	Modified	Full
Capital assets	Expenditure	Expenditure	Expenditure	Capitalized & Depr.
Debt	Expenditure	Expenditure	Expenditure	Liability

Financial Statement Overview

With the decline in the economy and the State budget problems this presentation will focus on the changes in the County’s finances.

Added complexity: This year’s financial statements are complicated by the incorporation of the City of Goleta, State budget cuts, the settlement of property tax assessment appeals & release of related impounds, significant changes in road fund revenues, the transfer of employees to the State Court program, the start-up of the new Housing and Community Development department, the transfer of Redevelopment Agency assets to Goleta, new debt obligations, a significant land donation, a year-end reduction in Motor Vehicle in Lieu tax revenue, the downturn in the economy and the second year of the GASB 34 implementation that adds infrastructure & depreciation of assets to the financial statements.

The County’s financial position: The overall results of operations for FY 2002-03 leave the County in relatively sound financial condition. The County’s total net assets increased 7% to \$414 million. Over time, increases or decreases in net assets may be a useful indicator of whether the County’s financial position is improving or deteriorating. In the prior 01-02 fiscal year, the County reported positive changes in all three categories of net assets. This fiscal year, the County reported positive changes in only two of the three categories of net assets, which is an indication that we are in a financial downturn.

Results of operations: At June 30, 2003, the County's governmental funds reported total fund balances of \$203,650,000 a 4% decrease, or \$8,779,000 in comparison with the prior year. At June 30, 2003, unreserved fund balance of the General Fund was \$40,773,000, while total fund balance increased 1% or \$703,000 to \$49,674,000. This increase over the prior year indicates financing sources of \$290,437,000 closely equaled financing uses of \$289,734,000 in the County's primary operating fund.

Financial Highlights Report of the County of Santa Barbara

This report highlights the significant financial and economic activity of Santa Barbara County for the fiscal year ending June 30, 2003. It is intended to provide an easily understandable overview and summary of the County's finances, economic prospects and achievements. By making this report available to the general public, we hope to stimulate an interest in County government finances and promote the County's accountability to the citizens of Santa Barbara County.

Redevelopment Agency General Purpose Financial Report

The County of Santa Barbara Redevelopment Agency requires an Annual Financial Report under the Health and Safety Code. This report is divided into four areas that includes an introduction, financial, compliance and statistical sections. This year included the divestiture of the Goleta Project area from the County to the new City of Goleta and the transfer of \$482,444 in net assets to the city.

Schedule of Federal Financial Assistance and KPMG Management Letter

The annual audit process also covers the "Single Audit Report" (Schedule of Federal Financial Assistance) and generally includes a Management Letter (Findings and Recommendations). These documents are part of the Board's annual audit contract with KPMG but are not ready for presentation at this hearing.

Certificates of Achievement

We have submitted the CAFR and Highlights publications to the Certificate of Achievement for Excellence programs, sponsored by the Government Finance Officers Association (GFOA). The Certificates of Achievement are prestigious awards, recognizing conformance with the highest standards for preparation of state and local governmental financial reports. We have received the CAFR award for the last twelve years, the Popular Report award for the Financial Highlights for the last seven years, and we believe that this year's reports will also qualify.

Fiscal Impact:

The annual audit fee is \$105,000 and the Internal Audit Division provides 1,200 hours to assist the outside audit firm KPMG in completion of the engagement.

Mandates and Service Levels:

Government Code Section 25250, Health and Safety Code 33080

CONCURRENCES: N/A