



Annual Financial Report

Fiscal Year Ended June 30, 2018

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, 2018

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position- Proprietary Fund	17
Statement of Revenues, Expenses and Changes in Fund Net Position- Proprietary Fund.....	18
Statement of Cash Flows – Proprietary Fund.....	19
Statement of Fiduciary Net Position –Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	21
Notes to Basic Financial Statements.....	22
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED):	
Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Cash Basis):	
General Fund	50
Ordinance Number One – Highway Development Fund	51
Service Authority for Freeway Emergencies Fund	52
Traffic Solutions Fund	53
Ordinance Number Five – Highway Development Fund	54
Note to Required Supplementary Information	55
Schedule of Changes in SBCAG's Net OPEB Liability and Related Ratios - CalPERS...	56
Schedule of Changes in SBCAG's Net OPEB Liability and Related Ratios – SBCERS...	57
Schedule of OPEB Contributions	58
Schedule of Proportionate Share of Net Pension Liability	59
Schedule of Pension Contributions	60



INDEPENDENT AUDITORS' REPORT

Santa Barbara County Association of Governments
Santa Barbara, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Barbara County Association of Governments (Association), as and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Barbara County Association of Governments, as of June 30, 2018, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Changes in Accounting Principles

As discussed in note 1 to the basic financial statements effective July 1, 2017, the Santa Barbara County Association of Governments adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, the budgetary comparison information on pages 50 through 55, the schedules of changes in the net OPEB liability and related ratios on pages 56 and 57, the schedule of OPEB contributions on page 58, the schedule of proportionate share of net pension liability on page 59, and the schedule of pension contributions on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2019, on our consideration of the Santa Barbara County Association of Governments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Moss, Remy & Halperin LLP

Santa Maria, California
January 10, 2019

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, 2018. 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 \$19,249,279.
- The SBCAG's net position decreased by \$4,092,951 as a result of this fiscal year's operations.
- As of the close of the current fiscal year, the SBCAG's governmental funds reported combined ending fund balances of \$23,955,263, a decrease of \$1,409,821 in comparison with the prior fiscal year. Approximately 1.5% of this total amount or \$339,278 is available for spending at the government's discretion (Fund Balance Residual).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$339,278 or 7% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is 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 Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements and required information.

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 Position* presents information on all of the SBCAG's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position 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 can be found on pages 11-12 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 SBCAG can be classified as either Governmental Funds, Proprietary Funds or Fiduciary 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, 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 five individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the Ordinance Number One Highway Development Fund, Service Authority for Freeway Emergencies Fund (SAFE), Traffic Solutions Fund, and the Ordinance Number Five Highway Development Fund.

The SBCAG adopts an annual appropriated budget for its General Fund, and its four 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 13-16 of this report.

At June 30, 2018, SBCAG's governmental funds reported total fund balances of \$23,955,263, a decrease of \$1,409,021 in comparison with the prior fiscal year's total ending fund balances. The components of total fund balance are as follows:

Restricted fund balance – of \$23,955,263 is comprised of: \$1,230,822 in the Service Authority for Freeway Emergencies fund which represents the 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 and the operation of a freeway service patrol program and \$22,385,163 in the SBCLTA fund which 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 November 2008, known as Measure A. The specific uses of the SBCLTA funds were identified as part of the passage of the sales tax measure and cannot be used for any other purpose without board approval.

Unassigned fund balance - of \$339,278 represents the balance of the SBCAG General Fund.

Proprietary Funds provide the same type of information as the Government-wide Financial Statements, but in more detail. The proprietary funds financial statements provide separate information for the Clean Air Express, SBCAG's commuter bus service. Proprietary funds are reported in the financial section and can be found on pages 17-19 of this report.

Fiduciary Funds are used to account for resources held for the benefit of parties outside of SBCAG. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support SBCAG's ongoing programs. Fiduciary funds are reported in the financial section and can be found on pages 20-21 of this report.

Notes to basic financial statements 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 basic financial statements can be found on pages 22-49 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The following table presents the SBCAG's net position at June 30, 2018 and June 30, 2017.

Net Position:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets:						
Current and other assets	\$ 25,316,715	\$ 27,006,449	\$ 1,121,186	\$ -	\$ 26,437,901	\$ 27,006,449
Long term loan receivable	1,500,000				1,500,000	
Capital assets	113,198	443,255	534,197		647,395	443,255
Total assets	26,929,913	27,449,704	1,655,383		28,585,296	27,449,704
Deferred outflows of resources:						
Deferred pensions	1,808,939	1,512,332			1,808,939	1,512,332
Deferred OPEB	70,040				70,040	
	1,878,979	1,512,332			1,878,979	1,512,332
Liabilities:						
Accounts payable and accrued liabilities	2,861,452	1,641,365	198,816		3,060,268	1,641,365
Long term loan payable			1,500,000		1,500,000	
OPEB liabilities	1,414,042	298,570			1,414,042	298,570
Other liabilities	175,619	235,969			175,619	235,969
Pension liabilities	4,564,615	4,222,905			4,564,615	4,222,905
Total liabilities	9,015,728	6,398,809	1,698,816		10,714,544	6,398,809
Deferred inflows of resources:						
Deferred pensions	434,219	251,240			434,219	251,240
Deferred OPEB	66,233				66,233	
	500,452	251,240			500,452	251,240
Net position:						
Net Investment in capital assets	113,198	443,255	534,197		647,395	443,255
Restricted	23,615,985	24,852,436			23,615,985	24,852,436
Unrestricted	(4,436,471)	(2,983,704)	(577,630)		(5,014,101)	(2,983,704)
	\$ 19,292,712	\$ 22,311,987	\$ (43,433)	\$ -	\$ 19,249,279	\$ 22,311,987

The SBCAG's assets exceeded liabilities by \$19,249,279 at the close of the current fiscal year.

Overall Capital Assets experienced an increase of \$204,140 from prior fiscal year due the purchase of Clean Air Express buses and normal depreciation.

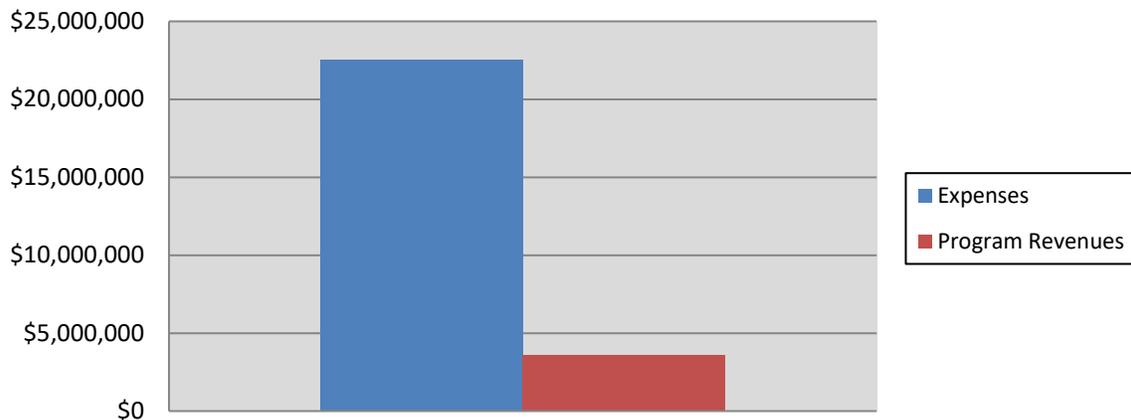
During the current fiscal year, SBCAG experienced a decrease to net position of \$3,062,708. This decrease is due to several factors which both decrease and increase net position of governmental activities.

The following table demonstrates the changes in SBCAG's net position for the fiscal years ended June 30, 2018 and June 30, 2017:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues						
Operating grants and contributions	\$ 3,592,097	\$ 2,612,157	\$ 373,306	\$ -	3,965,403	2,612,157
Charges for services			532,529		532,529	
General revenues:						
TDA sales tax	618,258	512,908			618,258	512,908
Measure A sales tax	13,635,678	13,273,293	524,138		14,159,816	13,273,293
Investment earnings	13,141	78,661	1,011		14,152	78,661
Other	93,896	188,617	287,609		381,505	188,617
Total revenues	<u>17,953,070</u>	<u>16,665,636</u>	<u>1,718,593</u>		<u>19,671,663</u>	<u>16,665,636</u>
Expenses:						
General government	<u>22,570,475</u>	<u>20,824,990</u>	<u>1,194,139</u>		<u>23,764,614</u>	<u>20,824,990</u>
Total expenses	<u>22,570,475</u>	<u>20,824,990</u>	<u>1,194,139</u>		<u>23,764,614</u>	<u>20,824,990</u>
Transfers	567,887		(567,887)			
Change in net position	<u>(4,049,518)</u>	<u>(4,159,354)</u>	<u>(43,433)</u>		<u>(4,092,951)</u>	<u>(4,159,354)</u>
Net position - beginning	22,311,987	26,471,341			22,311,987	26,471,341
Prior period adjustment	1,030,243				1,030,243	
Net position - beginning, as restated	<u>23,342,230</u>	<u>26,471,341</u>			<u>23,342,230</u>	<u>26,471,341</u>
Net position - ending	<u>\$ 19,292,712</u>	<u>\$ 22,311,987</u>	<u>\$ (43,433)</u>	<u>\$ -</u>	<u>\$ 19,249,279</u>	<u>\$ 22,311,987</u>

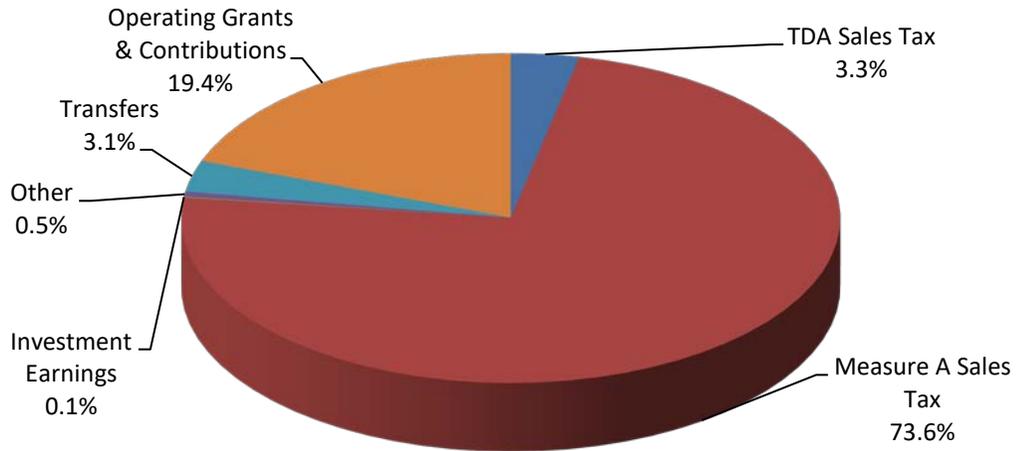
The following chart presents the cost of SBCAG's general government function as compared to program revenues. Costs not funded by program revenues are paid for with general revenues, which include Measure A and TDA sales taxes, investment earnings, and other revenue sources.

Expenses and Program Revenues Governmental Activities



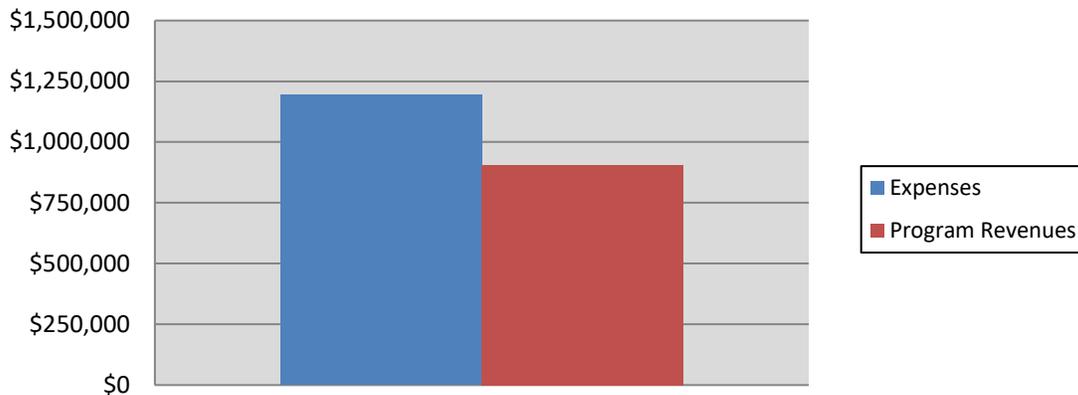
The following chart depicts SBCAG's governmental activities revenue sources. Measure A sales tax revenues represent the largest portion (73.6%) of resources that flow through SBCAG.

Revenue by Source Governmental Activities

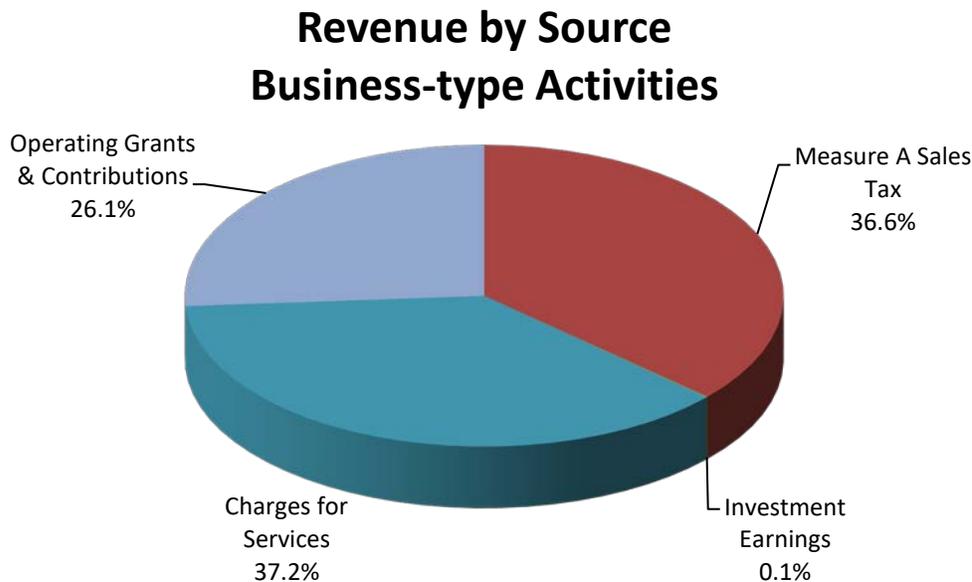


The following chart presents the cost of SBCAG's business-type activities as compared to program revenues. Costs not funded by program revenues are paid for with general revenues, which include Measure A, investment earnings, and other revenue sources and transfers.

Expenses and Program Revenues Business-type Activities



The following chart depicts SBCAG's business-type activities revenue sources. Fare revenues represent the largest portion (37.2%) followed by Measure A sales tax revenues (36.6%) that flow through the Clean Air Express commuter bus program.



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, the 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 \$23,955,263, a decrease of \$1,409,821 in comparison with the prior fiscal year. Approximately 1.5% of this total amount or \$339,278 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance (\$23,615,985) is set aside and is not available for spending because it has already been restricted to future projects like those funded with Measure A, which have been previously identified.

The General Fund is the chief operating fund of the SBCAG. At the end of the current fiscal year, total fund balance reached \$339,278, all of which is available to spend at the governments' discretion. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Fund balance represents 7.3% of total General Fund expenditures.

During the current fiscal year the SBCAG's General Fund balance decreased by \$173,370 due to normal operations and prior period adjustments.

The fund balances remaining for the Traffic Solutions Fund and the Ordinance Number One Highway Development Fund were transferred to SBCAG's General fund and both funds were closed. All project expenses and revenues in the Ordinance Number One Highway development fund were completed. Since the loss of funding for Traffic Solutions Program, the need to isolate expenditures and revenues no longer existed and the fund will now be part of the General Fund.

The Ordinance Number Five Highway Development decreased by \$973,815 also due to normal operations and prior period adjustments.

General Fund Budgetary Highlights

Additional appropriations totaling \$555,800 were needed in the general fund during the fiscal year. These appropriations covered a wide variety of professional service work not planned during the initial budget adoption which include: the Goleta Ramp Metering project \$11,800, ALUP Update and Environmental Review \$155,000, 101 HOV Environmental Document \$200,000 and multiple Senate Bill 1 (SB1) funded activities totaling \$189,000.

The General Fund expenditures were as anticipated and did not afford the ability for SBCAG to add to its existing fund balance. At the end of the fiscal year the General Fund experienced a decrease to available fund balance of \$173,370.

Proprietary Fund Highlights

The enterprise fund, which includes the Clean Air Express commuter bus service, was a newly established fund for the fiscal year ending 2018. The information contained in the schedules represents six months of operations and the total net position at year end was (\$43,433).

Capital Assets and Debt Administration

Capital Assets. The SBCAG's investment in capital assets as of June 30, 2018, amounts to \$647,395 net of accumulated depreciation. This investment in capital assets includes office equipment, furniture, software, commuter buses, pool car, and highway call boxes. The increase in SBCAG's investments in capital was due to the purchase two changeable message signs, additional Clean Air Express busses and normal depreciation of assets.

Capital Assets (net of depreciation):

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Equipment and furniture	\$ 72,919	\$ -	\$ -	\$ -	\$ 72,919	\$ -
Vehicles	6,031	299,670	534,197		540,228	299,670
Callboxes	34,248	143,585			34,248	143,585
Total	<u>\$ 113,198</u>	<u>\$ 443,255</u>	<u>\$ 534,197</u>	<u>\$ -</u>	<u>\$ 647,395</u>	<u>\$ 443,255</u>

Additional information on the SBCAG's capital assets can be found in Note III.C. on page 32 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 \$7,654,276. This amount is comprised of compensated absences of \$175,619, OPEB liabilities of \$1,414,042, net pension liabilities of \$4,564,615 and a long term loan for Clean Air Express operations of \$1,500,000.

Additional information on the SBCAG's long-term liabilities can be found in Note III.F. on page 34 of this report.

Economic Factors and Next Fiscal Year's Budgets and Rates

The revenue and expenditure projections incorporated into the FY 2018-19 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 2018-19 projects a combined decrease in fund balance of \$3,742,025.

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 Chief Financial 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 Position
Governmentwide
June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 22,029,464	\$ 536,500	\$ 22,565,964
Receivables	3,287,251	584,686	3,871,937
Internal balances	1,500,000	(1,500,000)	
Non-current assets:			
Capital assets, net of depreciation	113,198	534,197	647,395
Total assets	<u>26,929,913</u>	<u>155,383</u>	<u>27,085,296</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	1,808,939		1,808,939
Deferred OPEB	70,040		70,040
Total deferred outflows of resources	<u>1,878,979</u>		<u>1,878,979</u>
LIABILITIES:			
Accounts payable and accrued liabilities	2,861,452	198,816	3,060,268
Non-current liabilities:			
Compensated absences	155,825		155,825
Compensated absences -due within one year	19,794		19,794
Net pension liability	4,564,615		4,564,615
Net OPEB liability	1,414,042		1,414,042
Total liabilities	<u>9,015,728</u>	<u>198,816</u>	<u>9,214,544</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	434,219		434,219
Deferred OPEB	66,233		66,233
Total deferred inflows of resources	<u>500,452</u>		<u>500,452</u>
NET POSITION:			
Net investment in capital assets	113,198	534,197	647,395
Restricted for:			
Future projects	23,615,985		23,615,985
Unrestricted	(4,436,471)	(577,630)	(5,014,101)
Total net position	<u>\$ 19,292,712</u>	<u>\$ (43,433)</u>	<u>\$ 19,249,279</u>

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

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Statement of Activities
Governmentwide
For the Fiscal Year Ended June 30, 2018

<u>Functions/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Primary Government</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental Activities:						
General government	\$ 22,570,475	\$ -	\$ 3,592,097	\$ (18,978,378)	\$ -	\$ (18,978,378)
Total governmental activities	<u>22,570,475</u>		<u>3,592,097</u>	<u>(18,978,378)</u>		<u>(18,978,378)</u>
Business-type activities:						
Clean Air Express	1,194,139	532,529	373,306		(288,304)	(288,304)
Total business-type activities:	<u>1,194,139</u>	<u>532,529</u>	<u>373,306</u>		<u>(288,304)</u>	<u>(288,304)</u>
Total Primary Government	<u>\$ 23,764,614</u>	<u>\$ 532,529</u>	<u>\$ 3,965,403</u>	<u>(18,978,378)</u>	<u>(288,304)</u>	<u>(19,266,682)</u>
		General revenues:				
				618,258		618,258
				13,635,678	524,138	14,159,816
				13,141	1,011	14,152
				93,896		93,896
					287,609	287,609
				567,887	(567,887)	
			Total general revenues	<u>14,928,860</u>	<u>244,871</u>	<u>15,173,731</u>
	Change in net position			(4,049,518)	(43,433)	(4,092,951)
	Net position, beginning of fiscal year			22,311,987		22,311,987
	Restatement			1,030,243		1,030,243
	Net position, beginning of fiscal year restated			<u>23,342,230</u>		<u>23,342,230</u>
	Net position, end of fiscal year			<u>\$ 19,292,712</u>	<u>\$ (43,433)</u>	<u>\$ 19,249,279</u>

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

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Balance Sheet
Governmental Funds
June 30, 2018

	Special Revenue Funds					Total Governmental Funds
	General Fund	Ordinance Number One Highway Development Fund	Service Authority for Freeway Emergencies Fund	Traffic Solutions Fund	Ordinance Number Five Highway Development Fund	
ASSETS:						
Cash and investments	\$ 399,597	\$ -	\$ 1,169,730	\$ -	\$ 20,460,137	\$ 22,029,464
Receivables:						
Accounts	8,565					8,565
Interest	1,491		4,466			5,957
Due from other funds						
Due from other governments	951,155		87,419		2,234,155	3,272,729
Advances receivable					1,500,000	1,500,000
Total assets	<u>\$ 1,360,808</u>		<u>\$ 1,261,615</u>		<u>\$ 24,194,292</u>	<u>\$ 26,816,715</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	1,021,530		30,793		1,809,129	2,861,452
Total liabilities	<u>1,021,530</u>		<u>30,793</u>		<u>1,809,129</u>	<u>2,861,452</u>
Fund balances:						
Restricted						
State and Regional Highway Projects					22,385,163	22,385,163
Callbox and Freeway Service Patrol			1,230,822			1,230,822
Unassigned	339,278					339,278
Total fund balances	<u>339,278</u>		<u>1,230,822</u>		<u>22,385,163</u>	<u>23,955,263</u>
Total liabilities and fund balances	<u>\$ 1,360,808</u>	<u>\$ -</u>	<u>\$ 1,261,615</u>	<u>\$ -</u>	<u>\$ 24,194,292</u>	<u>\$ 26,816,715</u>

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

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Reconciliation of the Balance Sheet
Governmental Funds
June 30, 2018

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

Total fund balances - Governmental Funds (P. 13)		\$ 23,955,263
---	--	---------------

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

	\$ 1,961,992	
Capital assets at historical cost		
Accumulated depreciation	<u>(1,848,794)</u>	113,198

Deferred outflows related to pensions and OPEB are only reported in the statement of net position		1,878,979
---	--	-----------

Long-Term Liabilities: In governmental funds only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

	(4,564,615)	
Net pension liability		
Compensated absences	(175,619)	
OPEB liabilities	<u>(1,414,042)</u>	(6,154,276)

Deferred inflows related to pensions and OPEB are only reported in the statement of net position		(500,452)
--	--	-----------

Net position of governmental activities		<u><u>\$ 19,292,712</u></u>
---	--	-----------------------------

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

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	Special Revenue Funds				Total Governmental Funds	
	General Fund	Ordinance Number One Highway Development Fund	Service Authority for Freeway Emergencies Fund	Traffic Solutions Fund		Ordinance Number Five Highway Development Fund
REVENUES:						
Transportation Development Act tax	\$ 618,258	\$ -	\$ -	\$ -	\$ -	\$ 618,258
Measure A sales tax	395,850				13,239,828	13,635,678
Use of money and property	4,919	188	7,558	476		13,141
Intergovernmental	3,146,597		411,623	33,877		3,592,097
Other	69,055		20	24,821		93,896
Total revenues	<u>4,234,679</u>	<u>188</u>	<u>419,201</u>	<u>59,174</u>	<u>13,239,828</u>	<u>17,953,070</u>
EXPENDITURES:						
Current:						
Salaries and benefits	2,315,018		7,642	54,088	477,804	2,854,552
Services and supplies	2,342,025	11,586	346,531	111,826	16,208,263	19,020,231
Other	16,053				136,367	152,420
Capital Outlay			77,444			77,444
Total expenditures	<u>4,673,096</u>	<u>11,586</u>	<u>431,617</u>	<u>165,914</u>	<u>16,822,434</u>	<u>22,104,647</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(438,417)</u>	<u>(11,398)</u>	<u>(12,416)</u>	<u>(106,740)</u>	<u>(3,582,606)</u>	<u>(4,151,577)</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	132,082			139,400	567,887	839,369
Transfers out		(119,931)	(139,400)	(12,151)		(271,482)
Total other financing sources (uses)	<u>132,082</u>	<u>(119,931)</u>	<u>(139,400)</u>	<u>127,249</u>	<u>567,887</u>	<u>567,887</u>
Net change in fund balances	<u>(306,335)</u>	<u>(131,329)</u>	<u>(151,816)</u>	<u>20,509</u>	<u>(3,014,719)</u>	<u>(3,583,690)</u>
Fund balances, beginning of fiscal year	512,648	131,329	1,382,638	(20,509)	23,358,978	25,365,084
Prior-period adjustments	132,965				2,040,904	2,173,869
Fund balances, beginning of fiscal year, restated	<u>645,613</u>	<u>131,329</u>	<u>1,382,638</u>	<u>(20,509)</u>	<u>25,399,882</u>	<u>27,538,953</u>
Ending Fund balances	<u>\$ 339,278</u>	<u>\$ -</u>	<u>\$ 1,230,822</u>	<u>\$ -</u>	<u>\$ 22,385,163</u>	<u>\$ 23,955,263</u>

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

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 Fiscal Year Ended June 30, 2018

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

Net change in fund balances - total governmental funds (p. 15): \$ (3,583,690)

- (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 position. The net effect of the capital asset transactions is presented below:

Capital outlay	\$	77,444	
Transfer of capital assets to business-type activities		(287,609)	
Depreciation		<u>(119,892)</u>	(330,057)

- (2) The change in compensated absences does not use current financial resources and, therefore, is not reported as an expenditure in governmental funds. 60,350

- (3) In the government funds, pensions and OPEB are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This fiscal year the difference between pension costs and actual employer contributions were: (196,121)

Change in net position of governmental activities (p. 12) \$ (4,049,518)

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

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Statement of Net Position
Proprietary Fund
June 30, 2018

	Business-type Activities- Enterprise Fund
	Clean Air Express
ASSETS:	
Cash and investments	\$ 536,500
Receivables:	
Charges for services	155,893
Interest	2,265
Due from other governments	426,528
Capital Assets (net of accumulated depreciation)	534,197
Total assets	1,655,383
LIABILITIES AND FUND BALANCES:	
Current Liabilities:	
Accounts payable and accrued liabilities	198,816
Total current liabilities	198,816
Non Current Liabilities:	
Advances Payable	1,500,000
Total current liabilities	1,500,000
Total Liabilities	1,698,816
Net position	
Net investment in capital assets	534,197
Unrestricted	(577,630)
Total net position	\$ (43,433)

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

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Statement of Revenues, Expenditures, and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	Business-type Activities- Enterprise Fund
	Clean Air Express
OPERATING REVENUES:	
Charges for services	\$ 532,529
Total operating revenues	532,529
OPERATING EXPENSES	
Current:	
Salaries and benefits	6,935
Services and supplies	902,343
Fuel	178,005
Depreciation	106,856
Total expenditures	1,194,139
Operating income(loss)	(661,610)
NON-OPERATING REVENUES (expenses)	
Measure A sales tax	524,138
Intergovernmental	373,306
Use of money and property	1,011
Total non-operating revenues	898,455
Income before transfers	236,845
Capital contributions	287,609
Transfers out (Ordinance No. 5 Highway Development Fund)	(567,887)
Total Transfers, net	(280,278)
Change in net position	(43,433)
Net position, beginning of fiscal year	
Net position, end of fiscal year	\$ (43,433)

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

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	Business-type Activities- Enterprise Fund
	Clean Air Express
Cash flows from operating activities	
Receipts from customers and users	\$ 376,636
Payments to employees	(6,935)
Payments to suppliers and service providers	(881,532)
Net cash used by operating activities	(511,831)
Cash flows from noncapital financing activities	
Transfers to other funds	(567,887)
Advance from other funds	1,500,000
Local Sales Tax Measure	397,609
State and federal aid	73,306
Net cash provided by noncapital financing activities	1,403,028
Cash flows from capital and related financing activities	
Purchase of Capital assets	(353,444)
Net cash used by capital and related financing activities	(353,444)
Cash flows from investing activities	
Use of money and property	(1,253)
Net cash used by investing activities	(1,253)
Net increase in cash and cash equivalents	536,500
Cash and cash equivalents - beginning	
Cash and cash equivalents - ending	\$ 536,500
Reconciliation of cash and cash equivalents to Statement of Net Position	
Cash and investments per Statement of Net Position	536,500
Total cash and cash equivalents per Statement of Net Position	\$ 536,500
Reconciliation of operating income(loss) to net cash used by operating activities:	
Operating Income(loss)	\$ (661,610)
Depreciation	106,856
Accounts payable	198,816
Accounts and other receivables	(155,893)
Net cash used by operating activities	\$ (511,831)

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

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Expendable Trust Funds					
	Local Transportation Fund	State Transit Assistance Fund	SB1 -State of Good Repair Fund	1/2 Cent Sales Tax Fund	Surface Transportation Program Fund	Total Fiduciary Funds
ASSETS:						
Cash and investments	\$ (9,043)	\$ 19,920,970	\$ 497,981	\$ (137,250)	\$ 23,160,407	\$ 43,433,065
Interest receivable	2,054	70,789	628	80,417	87,014	240,902
Due from other governments	2,840,133	1,624,913	250,671	6,193,359	6,191,234	17,100,310
Total assets	<u>2,833,144</u>	<u>21,616,672</u>	<u>749,280</u>	<u>6,136,526</u>	<u>29,438,655</u>	<u>60,774,277</u>
LIABILITIES						
Due to other governments		17,951,656	752,641	80,417	133,677	18,918,391
Total liabilities		<u>17,951,656</u>	<u>752,641</u>	<u>80,417</u>	<u>133,677</u>	<u>18,918,391</u>
NET POSITION:						
Restricted for future projects					23,800,525	23,800,525
Unrestricted	<u>2,833,144</u>	<u>3,665,016</u>	<u>(3,361)</u>	<u>6,056,109</u>	<u>5,504,453</u>	<u>18,055,361</u>
TOTAL NET POSITION	<u>\$ 2,833,144</u>	<u>\$ 3,665,016</u>	<u>\$ (3,361)</u>	<u>\$ 6,056,109</u>	<u>\$ 29,304,978</u>	<u>\$ 41,855,886</u>

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

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2018

	Expendable Trust Funds					Totals
	Local Transportation Fund	State Transit Assistance Fund	SB1 -State of Good Repair Fund	1/2 Cent Sales Tax Fund	Surface Transportation Program Fund	
Additions						
Sales Tax						
TDA	\$ 17,964,641	\$ -	\$ -	\$ -	\$ -	\$ 17,964,641
Measure A				38,796,165		38,796,165
State Transit Assistance		4,123,382				4,123,382
State of Good Repair (SB1)			752,012			752,012
Surface Transportation Program Exchange					6,191,234	6,191,234
Interest		99,080		156,440	144,389	399,909
Total Additions	17,964,641	4,222,462	752,012	38,952,605	6,335,623	68,227,343
Deductions						
Claims paid or payable to claimants:						
City of Buellton	3,981	20,369		353,070		377,420
City of Carpinteria	11,130			791,727	10,098	812,955
City of Goleta	25,021			1,570,401	694,142	2,289,564
City of Guadalupe	340,897	29,143	869	480,034		850,943
City of Lompoc	2,066,774	270,176	397,421	2,371,833	171,940	5,278,144
City of Santa Barbara	74,444			3,833,849	345,244	4,253,537
City of Santa Maria	5,040,692	519,128	225,999	5,478,778		11,264,597
City of Solvang	581,060	72,482	792	390,156		1,044,490
County of Santa Barbara	605,063	9,223	3,628	7,243,125	444,345	8,305,384
Easy Lift	407,616	88,701		219,182		715,499
SBMTD	7,744,719	1,200,609	123,717	2,126,934		11,195,979
SMAT		314				314
SMOOTH	448,011	77,489		54,036		579,536
SBCAG Transit Programs		140,481				140,481
SBCAG Highway Development				13,239,828		13,239,828
Clean Air Express		303,395		524,138		827,533
SBCAG Planning Allocation	618,258			395,850	324,600	1,338,708
Other	4,505	218	2,947	4,000	88,528	100,198
Total Deductions	17,972,171	2,731,728	755,373	39,076,941	2,078,897	62,615,110
Change in net position	(7,530)	1,490,734	(3,361)	(124,336)	4,256,726	5,612,233
Net Position, beginning of fiscal year	2,549,942	2,174,282		5,788,887	25,048,252	35,561,363
Prior-period adjustments	290,732			391,558		682,290
Net Position - beginning of fiscal year, restated	2,840,674	2,174,282		6,180,445	25,048,252	36,243,653
Net Position - end of fiscal year	\$ 2,833,144	\$ 3,665,016	\$ (3,361)	\$ 6,056,109	\$ 29,304,978	\$ 41,855,886

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

Notes to the Financial Statements

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

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 and a voter approved extension named Measure A in November 2008. 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 position and the statement of activities and report information on all of the non-fiduciary 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, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

I. Summary of Significant Accounting Policies (continued)

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the SBCAG considers revenues to be available if they are collected within 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 has been met. Specifically, intergovernmental revenues, interest, and charges for services are all susceptible to accrual when the underlying exchange transaction occurs, 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 SBCAG.

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 focus of governmental fund financial statements is on major funds rather than the reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column.

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position and a Statement of Cash Flows.

Proprietary funds are accounted for using the *economic resources* measurement focus and the *accrual basis* of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operation of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

SBCAG's accounts are organized into major, proprietary and fiduciary funds, as follows:

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 **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 used to finance the development and construction of previously approved major projects. Since the Measure D ½-cent sales tax has sunset, this fund will slowly phase out as the available cash balance in the fund is used to complete the remaining projects originally identified.

The **Service Authority for Freeway Emergencies (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 and for the operation of the freeway service patrol program.

The **Traffic Solutions 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.

The **Ordinance Number Five Highway Development Fund** is used to account for the SBCLTA's share of Measure A ½ cent sales tax revenues which is used to finance the development and construction of previously approved projects as identified in the Measure A Investment Plan.

Proprietary Fund

The SBCAG has one proprietary fund, the Clean Air Express which account for the activities of the commuter bus services managed by SBCAG.

Fiduciary Funds

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 **SB1- State of Good Repair Fund** is used to account for the funding received for the Road Repair and Accountability Act of 2017 (Senate Bill 1), which are claimed by local agencies for transit infrastructure repair and service improvements.

The **½ Cent Sales Tax Fund** is used to account for revenues received from the Measure A half percent sales tax for state and regional highway projects, public transit, local street and

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Fiduciary Funds (continued)

road projects, and administrative expenses. Ordinance Number Five specifies that the proceeds from the half percent sales tax shall be divided among state and regional projects identified in the Expenditure Plan.

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

D. Assets, Liabilities, and Net Position

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.

Most 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".

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Position (continued)

2. Receivables and Payables (continued)

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

At June 30, 2018, the SBCAG had \$3,272,729 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. SBCAG uses a capitalization threshold of \$5,000. 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
Pool vehicle	5 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.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Position (continued)

5. Pensions

In the government wide financial statements, retirement plans (pensions) are required to be recognized and disclosed using the accrual basis of accounting regardless of the amount recognized as pension expenditures on the governmental fund statements, which use the modified accrual basis of accounting.

In general, SBCAG recognizes a net pension liability, which represents its proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial report provided by the Santa Barbara County Employee's Retirement System (SBCERS). The net pension liability is measured as of SBCAGS's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources relating to pensions and pension expense, information about the fiduciary net position of SBCAG's pension plan with SBCERS and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by SBCERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition.

6 Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the SBCAG's OPEB Plan and additions to/deduction from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by Total Compensation System Inc. (TCS). For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

7. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," "Items Previously Reported as Assets and Liabilities," SBCAG recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Refer to Notes IV.F, page 38

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Position (continued)

7. Deferred Outflows and Inflows of Resources (continued)

and Note IV.G pages 45 and 48 for a detailed listing of the deferred outflows of resources that SBCAG has reported.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Refer to Notes IV.F, page 38 and Note IV.G pages 45 and 48 for a detailed listing of the deferred outflows of resources SBCAG has reported.

8. 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 position.

9. Fund Balance

In the fund financial statements, governmental funds report fund balance as non-spendable, restricted, committed, assigned or unassigned based primarily on the extent to which SBCAG is bound to honor constraints on how specific amounts can be spent.

Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the County's highest level of decision-making authority (the SBCAG Board) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned fund balance – amounts that are constrained by the SBCAG's intent to be used for specific purposes. The intent can be established at either the highest level of decision making,

or by a body or an official designated for that purpose. This is also the classification for residual funds in the County's special revenue funds.

Unassigned fund balance – the residual classification for SBCAG's funds that includes amounts not contained in the other classifications.

The SBCAG Board establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Position (continued)

10. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

Budgets are adopted annually on a cash basis for the General Fund, and the special revenue funds. The cash basis differs from generally accepted accounting principles (GAAP); therefore, a reconciliation of the budgetary cash basis to GAAP is presented in the Note to Required Supplementary Information on page 55.

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 completed to allow for unforeseen budgetary changes and meet financial system control - processes.

III. Detailed Notes on All Funds

A. Cash and Investments

Cash and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 22,029,464
Fiduciary funds:	
Cash and investments	<u>43,433,065</u>
Total cash and investments	<u><u>\$ 65,462,529</u></u>

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

III. Detailed Notes on All Funds (continued)

A. Cash and Investments (continued)

Cash and investments as of June 30, 2018, consist of the following:

Cash on hand	\$	450
Cash equivalents in County Investment Pool		<u>65,462,079</u>
 Total cash and investments	 \$	 <u><u>65,462,529</u></u>

SBCAG categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. SBCAG had investments in the Santa Barbara County Investment Pool, however, that pool is not measured under Level 1, 2, or 3.

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 made in accordance with the California Government Code and in general the Treasurer's policy is more restrictive than State Law.

2. 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. The weighted average days to maturity (WAM) of the investments contained in the Santa Barbara County Treasurer investment pool was approximately 448 days at June 30, 2018.

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>Total</u>	<u>Remaining Maturity 12 Months or More</u>
Cash equivalents in County Investment Pool	\$ 65,462,079	\$ 65,462,079
	<u><u>\$ 65,462,079</u></u>	<u><u>\$ 65,462,079</u></u>

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

III. Detailed Notes on All Funds (continued)

A. Cash and Investments (continued)

3. Disclosures Relating to Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Treasurer mitigates these risks by holding a diversified portfolio of high quality investments as set forth in its investment policy.

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 US Government, its agencies and sponsored enterprises.

Disclosures Relating to Credit Risk:

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>Rating as of Fiscal Year End Not Rated</u>
Cash equivalents in County Investment Pool	\$ 65,462,079	N/A	\$ -	\$ 65,462,079
	<u>\$ 65,462,079</u>		<u>\$ -</u>	<u>\$ 65,462,079</u>

4. 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 fair 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, 2018, 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.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

III. Detailed Notes on All Funds (continued)

A. Cash and Investments (continued)

5. 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. Unearned Revenue

Governmental funds also defer revenue recognition in connection with resources that have been received as of fiscal year-end, but not yet earned.

At June 30, 2018, no unearned revenue was reported in the governmental funds.

C. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Deletions	Transfers and Adjustments	Ending Balance
Governmental activities:					
Equipment/Furniture	\$ 218,684	\$ 77,444	\$ -	\$ -	\$ 296,128
Vehicles	944,559			(914,409)	30,150
Software	25,579				25,579
Call Boxes	1,610,135				1,610,135
Total capital assets	<u>2,798,957</u>	<u>77,444</u>		<u>(914,409)</u>	<u>1,961,992</u>
Less accumulated depreciation:					
Equipment/Furniture	(218,684)	(4,525)			(223,209)
Vehicles	(644,889)	(6,030)		626,800	(24,119)
Software	(25,579)				(25,579)
Call Boxes	(1,466,550)	(109,337)			(1,575,887)
Total accumulated depreciation	<u>(2,355,702)</u>	<u>(119,892)</u>		<u>626,800</u>	<u>(1,848,794)</u>
Total capital assets, net of depreciation	<u>443,255</u>	<u>(42,448)</u>		<u>(287,609)</u>	<u>113,198</u>
Governmental activities	<u>\$ 443,255</u>	<u>\$ (42,448)</u>	<u>\$ -</u>	<u>\$ (287,609)</u>	<u>\$ 113,198</u>
Business-type activities:					
Vehicles		353,444		3,524,408	3,877,852
Total capital assets		<u>353,444</u>		<u>3,524,408</u>	<u>3,877,852</u>
Less accumulated depreciation:					
Vehicles		(106,856)		(3,236,799)	(3,343,655)
Total accumulated depreciation		<u>(106,856)</u>		<u>(3,236,799)</u>	<u>(3,343,655)</u>
Business-type activities:		<u>\$ 246,588</u>		<u>\$ 287,609</u>	<u>\$ 534,197</u>

Depreciation expense of \$ 119,892 was charged to the general government function and \$106,856 to business-type activities (Clean Air Express).

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

III. Detailed Notes on All Funds (continued)

D. Interfund Receivables, Payables, and Transfers

The composition of .interfund balance at June 30, 2018 was as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
Ordinance Number Five Highway Development Fund	Clean Air Express	\$ 1,500,000
		<u>\$ 1,500,000</u>

Advances are used to move future revenues that are designated by Ordinance and authorized by action of the governing body.

Transfers to/from other funds:

Transfer From	Transfer To	Amount
Ordinance Number One Highway Development Fund	General Fund	\$ 119,931
Service Authority for Freeway Emergencies	Traffic Solutions Fund	139,400
Traffic Solutions Fund	General Fund	12,151
Clean Air Express	Ordinance Number Five Highway Development Fund	567,887
		<u>\$ 839,369</u>

Transfers are used to move revenues from funds required by statute or budget to collect them for expenditures authorized by the budget.

E. Lease Obligations

The SBCAG leases its office space under a non-cancelable operating lease with the County of Santa Barbara. This lease went into effect in July 2003 and expires July 2034. The total cost to lease office space and on-site storage facilities for the year ended June 30, 2018, was \$108,427.

SBCAG also leases two copy machines under lease agreements expiring December 2021 and June 2022. The total cost for these leases amounted to \$8,379 for the year ended June 30, 2018.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

III. Detailed Notes on All Funds (continued)

E. Lease Obligations (continued)

Future minimum lease payments for these leases as of June 30, 2018, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 113,440
2020	105,786
2021	102,853
2022	102,853
2023	102,853
2024-2028	514,265
2029-2033	214,265
2034	205,706
Total	<u>\$ 1,462,021</u>

F. Long-Term Liabilities

Long-term liabilities at June 30, 2018, consist of employee compensated absences, net OPEB liabilities and net pension liabilities. Payments for long-term liabilities are recorded in the funds incurring the obligations.

Long-term liability activity for the year ended June 30, 2018 was as follows:

	<u>Balance 7/1/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Prior Period Adjustment</u>	<u>Balance 6/30/18</u>	<u>Due Within One Year</u>
Governmental activities:						
Compensated absences	\$ 235,969	\$ 175,619	\$ 235,969	\$ -	\$ 175,619	\$ 19,794
Net OPEB liability	298,570	270,416	298,570	1,143,626	1,414,042	
Net pension liability	4,222,905	4,564,615	4,222,905		4,564,615	
Total long-term liabilities	<u>\$ 4,757,444</u>	<u>\$ 5,010,650</u>	<u>\$ 4,757,444</u>	<u>\$ 1,143,626</u>	<u>\$ 6,154,276</u>	<u>\$ 19,794</u>

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

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.

The SBCAG typically reimburses the County of Santa Barbara each year for a share of County overhead costs. For the year ended June 30, 2018, \$161,763 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, 2018, in accordance with the provisions of OMB Uniform Guidance, 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 A sales tax revenues, the SBCLTA has entered into various agreements. At June 30, 2018, the aggregate outstanding commitments under these agreements were \$9,458,436 for design services, support on construction, consultant, and project management support within our jurisdiction. Additional agreements totaling approximately \$562,686 are also outstanding as of June 30, 2018. These services deal primarily with consultant contracts for services on various programs for which SBCAG is responsible such as the Freeway Service Patrol Program, Airport Land Use Compatibility Plan, Federal and State representation and US 101 Corridor TMP.

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

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

D. Deferred Compensation Plan (continued)

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. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," SBCAG recognizes deferred outflows and inflows of resources in the government-wide fund statements.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. For a detailed listing of deferred outflows of resources for SBCAG, refer to Note IV.F, page 38 for deferred outflow as they relate to pensions and Note IV.G pages 45 and 48 for deferred outflows as they relate to OPEB.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by SBCAG that is applicable to a future reporting period. For a detail listing of deferred inflows of resources for SBCAG, refer to Note IV.F, page 38 for deferred inflows as they relate to pensions and Note IV.G pages 45 and 48 for deferred outflows as they relate to OPEB obligations.

F. Retirement Plan

Plan Description

The Santa Barbara County Employees' Retirement System (Retirement System) was established on January 1, 1944, and is administered by the Board of Retirement to provide service retirement, disability, death, and survivor benefits for its employees and contracting districts. It is governed by the California Constitution; California State Government Code §31450 (County Employees' Retirement Law of 1937 (CERL)); and the bylaws, policies and procedures adopted by the Retirement System's Board of Retirement. The Santa Barbara County Board of Supervisors may also adopt resolutions, as permitted by the CERL, which may affect the benefits of the Retirement System members. 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, and independent special districts: Carpinteria, Summerland Fire Protection District, Mosquito and Vector Management District of Santa Barbara County, Goleta Cemetery District, Santa Maria Cemetery District, Oak Hill Cemetery District, Carpinteria Cemetery District, Summerland Sanitary District, Santa Barbara County Air Pollution Control District, Santa Barbara County Association of Governments, and the Santa Barbara County Superior Court. The Retirement System has six County retirement plans of which one plan (consisting of two rate tiers) is currently available for new employees. All new safety and general members will be

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

F. Retirement Plan (continued)

Plan Description (continued)

enrolled in Plan 8, pursuant to the Public Employees' Pension Reform Act ("PEPRA"). PEPRA has also created limits on pensionable compensation tied to the Social Security taxable wage base and requires member contributions of 50% of normal cost. All plans provide benefits as defined by CERL upon retirement, death or disability of members. Benefits are based on age, years of service, final average salary, 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:

General Plan 8	County: 26.46%	All SBCAG employees enrolled in plan on or after January 1, 2013
General Plan 5A	County: 32.32%	All SBCAG employees enrolled in plan prior to the establishment of General Plan 8

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Santa Barbara County Employees' Retirement System (SBCERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by SBCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

F. Retirement Plan (continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

At June 30, 2018, SBCAG reported a liability of \$4,564,615 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures.. SBCAG's proportion of the net pension liability was based on a projection of SBCAG's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2017, SBCAG's proportion was 0.4852%, which was an increase of 0.0165% from its proportion measured as of June 30, 2016

For the year ended June 30, 2018, SBCAG recognized pension expense of \$832,641. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2018, SBCAG reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 308,170
Changes in assumptions	837,797	
Net difference between projected and actual earnings on retirement plan investments	286,926	
Changes in proportion	39,856	122,284
Differences between SBCAG's contributions and proportionate share of contributions	39,801	3,765
SBCAG's contributions subsequent to the measurement date	604,559	
	<u>\$ 1,808,939</u>	<u>\$ 434,219</u>

Deferred outflows of resources and deferred inflows of resources on the prior page represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

\$604,559 reported as deferred outflows of resources related to pensions resulting from SBCAG's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows.

Fiscal year ended June 30	<u>Amount</u>
2018	\$ 180,237
2019	322,827
2020	198,457
2021	68,640
	<u>\$ 770,161</u>

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

F. Retirement Plan (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

Increases in pay	3.00% wage inflation component plus additional longevity and promotion component based on employee classification and years of service
Investment rate of return	7.00% net of investment expense
Administrative expenses	Base of \$5.1 million for the FYE 6/30/17 with 3.00% wage inflation increase annually
Basic COLA	The cost of living as measured by the Consumer Price Index (CPI) will increase at the rate of 2.75% per year.
Post-Retirement COLA	2.60% per year for those in General Plan 5A and 1.9% per year for 8 (PEPRA)
Post-Retirement Mortality	Sex distinct 2014 California Public Employees' Retirement System (CALPERS) Healthy Annuitant Mortality Tables adjusted by 0.95 for males and 0.90 for females, with Generational improvement using Projection Scale MP-2016 from base year of 2009.

The actuarial assumptions used in the June 30, 2016, updated to June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2013 through June 30, 2016. Based upon the results of the 2016 actuarial experience study, a decrease in the discount rate, decreases in COLA and wage inflation assumptions, and revised mortality assumptions were utilized in the June 30, 2016 actuarial valuation to more closely reflect actual experience.

The long-term expected rate of return, measured as of June 30, 2017, on pension plan investments (7.0 percent) was determined using a building block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investments expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Broad U.S. equity	19%	4.55%
Developed market non-U.S. equity	11%	5.75%
Emerging markets equity	7%	8.25%
Core fixed income	17%	1.00%
Custom non-core fixed income	11%	3.33%
Custom real return	15%	4.44%
Custom real estate	10%	5.02%
Private equity	10%	7.50%
Cash	0%	-0.25%
Total	100%	

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

F. Retirement Plan (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from SBCAG will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund's fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all period of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the SBCAG's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the SBCAG's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0 percent) or 1- percentage point higher (8.0 percent) than the current rate:

	<u>1% Decrease</u> 6.00%	<u>Discount Rate</u> 7.00%	<u>1% Increase</u> 8.00%
SBCAG's proportionate share of net pension plan liability	\$ 7,171,119	\$ 4,564,615	\$ 2,438,771

Pension Plan Fiduciary Net Position

Detailed information about pension plan's fiduciary net position is available in the separately issued SBCERS financial reports.

G. Other Post-Employment Benefits

Plan Description

The SBCAG's postemployment healthcare plan (OPEB) provides medical benefits to eligible retired SBCAG employees and their beneficiaries pursuant to California Government Code Section 31694 et. Seq. The SBCAG's OPEB plan is administered in part by the Santa Barbara County Employees Retirement System (Retirement System) and California Public Employees Retirement System (CalPERS). Members of the OPEB Plan include retirees of the County and of other employer plan sponsors, as well as their eligible dependents. The SBCAG is considered a plan sponsor.

In September 2008, the SBCAG and the Retirement System adopted an Internal Revenue Code (IRC) Section 401(h) account that provide for these benefits. Under GASB Statement No. 43, *Reporting for Post-Employment Benefit Plans Other than Pensions*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than*

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

G. Other Post-Employment Benefits (continued)

Plan Description (continued)

Pensions, the liability related to the plan is required to be determined for both retirement systems and employers. GASB Statement No. 45 is not limited to the reporting of vested benefits.

Retiree health premiums for SBCERS are rated separately from the premiums for active employees. CalPERS retiree health premiums are community-rated as described in Paragraph 13a(2) of GASB Statement No. 45. The premium rates reflect the projected health claims experience for all participating employers and the same premiums are charged for both active employees and retirees. For this reason, there is no implicit rate subsidy and only direct subsidies are valued.

All SBCAG retirees depending upon employment status as of December 31, 2009, how soon they retire after termination of employment and elections made by the members, retirees will receive one of the following three options for health benefits:

1. Retiree health benefits through CalPERS, with a limited employer subsidy. The limit was \$517 in calendar year 2011, and it was increased to \$527 in 2013 and will continue to be set at this rate beyond for future years. If the monthly premium for the health plan selected is less than the limit, the subsidy is limited to the entire premium. The health plans can include coverage for an eligible spouse and/or dependents. After a member's death, a surviving spouse is eligible to continue coverage. The maximum subsidy for a surviving spouse is the same as it is for a retiree.
2. Coverage in SBCERS health plans, with a monthly subsidy equal to \$15 per month per year of benefits service. If the monthly premium for the health plan selected is less than \$15 times years of service, the subsidy is limited to the entire premium.

The health plans can include coverage for an eligible spouse and/or dependents. After the member's death, a surviving spouse is eligible to continue health plan coverage. The monthly subsidy benefit will be equal to \$15 per year of service multiplied by the survivor continuation percentage applicable for pension benefits.

If a member is eligible for a disability retirement benefit, the member can receive a monthly health plan subsidy of \$187 per month or a \$15 per year of service, whichever is greater.

3. Some retirees who choose not to participate in an employer-sponsored health plan receive a cash benefit of \$4 per month per year of service. After the member's death, a surviving spouse is eligible to receive a monthly cash benefit equal to \$4 per year of service times the survivor continuation percentage applicable for pension benefits.

Plan Benefits

Employees who were actively employed as of December 31, 2009 are eligible for CalPERS retiree health benefits, provided they meet the eligibility criteria. If they were vested in the SBCERS retirement plan, terminate employment with SBCAG and retire within 120 days of termination, they are eligible to receive health benefits through CalPERS, with employer contribution limited as specified by resolution (\$527 in 2013). Both retirees and their qualified

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

G. Other Post-Employment Benefits (continued)

Plan Benefits (continued)

dependents are eligible for health coverage. Alternatively, retirees who were actively employed as of December 31, 2009 may choose a monthly cash benefit of \$4 per year of service. If employees who were actively employed as of December 31, 2009 are vested in the SBCERS retirement plan, terminate employment with SBCAG, but do not retire within 120 days, they will be eligible to receive the monthly benefit of \$15 per year of service to be used toward SBCERS retiree health benefits. Once again, they are also eligible to elect a monthly cash benefit of \$4 per year of service when they begin receiving pension benefits. If these members do not commence receiving pension benefits within 120 days of termination, they will not be eligible for the health care coverage provide through CalPERS.

All employees hired on or after January 1, 2010 will only be eligible for CalPERS Retiree Health benefits provided they terminate their employment from SBCAG and retire within 120 days. These employees will not be eligible for either the \$4 or \$15 benefit plans otherwise offered by SBCERS.

Retirees as of December 31, 2009, who had selected the monthly benefit of \$15 per year of service toward SBCERS benefits were moved to the CalPERS plan as of January 2010 if they retired within 120 days of termination. They were also eligible to switch to the \$4 cash benefit. For the following valuation, it was assumed that these retirees will continue with the benefits chosen as of the valuation date.

Retirees as of December 31, 2009, who had selected the monthly benefit of \$15 per year of service toward SBCERS benefits and had not retired within 120 days of termination remained with the SBCERS benefits. They are eligible to change to the \$4 cash benefit. For the following valuation, it was assumed that those who were covered by the \$15 SBCERS benefit as of the valuation date will continue to receive those benefits.

Members who terminated employment prior to January 1, 2010 with a vested deferred pension benefit from SBCERS are only eligible for the \$15 SBCERS benefit or the \$4 cash benefit. This is because they did not retire from SBCAG within 120 days of terminating employment.

At the time of the following valuation, only the \$15 SBCERS subsidy and \$4 cash benefits were available to SBCAG members.

Employees Covered - CalPERS

As of June 30, 2017, actuarial valuation the following current and former employees were covered by the benefit terms under The SBCAG's plan through CalPERS

Inactive plan employees or beneficiaries currently reciving benefits	13
Inactive employees entitled to but not receiving benefits	0
Participating active employees	18
Total	<u>31</u>

Although an OPEB trust has been established, current benefits are paid on a pay-as-you go basis.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

G. Other Post-Employment Benefits (continued)

Actuarial Methods and Assumptions- CalPERS

The total OPEB liability measured as of June 30, 2017 was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	We assumed 2.75% per year used for pension purposes. Actuarial standards require using the same rate for OPEB that is used for pension.
Investment rate of return/	We assumed 7% per year net of expenses. This is based assumed long-term return on plan assets assuming 100% funding through CERBT. We used the "Building Block Method"
Healthcare cost trend rates	We assumed 4% per year. Our long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. We do not believe it is reasonable to project historical trend vs. inflation differences several decades into the future.
Payroll increase	We assumed 2.75% per year. Since benefits do not depend on salary (as they do for pensions), using an aggregate payroll assumption for the purpose of calculating the service cost results in a negligible error
Mortality rates	Were based on CalPERS Healthy Annuitant Mortality tables

Discount rate- CalPERS

The discount rate used to measure the total OPEB liability was 7%. We assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. We used historic 30 year real rates of return for each asset class along with our assumed long-term inflation assumption to set the discount rate. We offset the expected investment return by investment expenses of 25 base points.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

G. Other Post-Employment Benefits (continued)

Changes in the OPEB Liability- CalPERS

The table below shows the changes in the total OPEB liability during the measurement period ending on June 30, 2017.

	Total OPEB Liability
Balance as of June 30, 2017 (Valuation date June 30, 2017)	<u>\$ 758,374</u>
Service Cost	15,766
Interest	54,254
Employer contributions	(57,657)
Employee contributions	
Actual investment income	
Administrative expenses	(3,463)
Benefit payments	17
Other	
Net change	<u>8,917</u>
Balance at June 30, 2018 (Measurement date June 30, 2017)	<u>\$ 767,291</u>

Sensitivity of the OPEB Liability to Changes in the Discount Rate- CalPERS

The following table shows the net OPEB liability with a discount rate 1% higher and 1% lower than assumed in the valuation.

	<u>1% Decrease</u>	<u>Current rate</u>	<u>1% Increase</u>
	6.00%	7.00%	8.00%
Net OPEB Liability	\$ 852,717	\$ 767,291	\$ 695,218

Sensitivity of the OPEB Liability to Changes in the Healthcare Cost Trend Rates-CalPERS

The following table shows the net OPEB liability with a healthcare cost trend rate 1% higher and 1% lower than assumed in the valuation

	<u>1% Decrease</u>	<u>Current rate</u>	<u>1% Increase</u>
	3.00%	4.00%	5.00%
Net OPEB Liability	\$ 729,442	\$ 767,291	\$ 782,179

OPEB Plan Fiduciary Net Position- CalPERS

For the fiscal year ended June 30, 2018, the SBCAG recognized OPEB expense of \$66,574. OPEB expenses represents the change in the OPEB liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss and actuarial assumptions or methods. For fiscal year ended June 30, 2018, the SBCAG reported deferred outflows and inflows of resources related to OPEB from the following sources:

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

G. Other Post-Employment Benefits (continued)

OPEB Plan Fiduciary Net Position- CalPERS (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 64,747	\$ -
Differences between expected and actual experience		
Changes in assumptions		
Net difference between projected and actual earnings on plan investments		
	<u>\$ 64,747</u>	<u>\$ -</u>

The \$64,747 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019.

Employees Covered - SBCERS

As of June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the SBCAG plan through SBCERS:

Inactive plan employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not receiving benefits	10
Participating active employees	<u>17</u>
Total	<u>41</u>

The SBCAG currently funds SBCAG benefits on a pay-as-you go basis.

Actuarial Methods and Assumptions – SBCERS

The total OPEB liability measured as of June 2017 was determined using the following actuarial assumption, applied to all periods included in the measurement, unless otherwise specified:

Salary increase rate	3% plus an additional longevity and promotion increase compounded based on years of service
Investment rate of return	7%, net of investment expense
Healthcare cost trend rates	The Healthcare Cost Trend Rate is not applicable because the total cost of health benefits is not valued. Only the monthly benefit provided is valued using the assumption that no future increases will be granted to the amount
Future retiree plan election	55%-monthly subsidy of \$15 per year of service, 45% - \$4 cash benefit option

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

G. Other Post-Employment Benefits (continued)

Employees Covered – SBCERS (continued)

Mortality rates

Healthy Lives:

Mortality rates for retirees, beneficiaries, terminated vested, and reciprocals are based on sex distinct CalPERS Healthy Annuitant Mortality Tables adjusted by 0.95 for males and 0.90 for females, with Generational improvement using Projection Scale MP-2016 from based year of 2009. Non-duty related mortality rates for active members are based on the sex distinct CalPERS Preretirement Non-Industrial Mortality Table, with no adjustment, with Generational improvement using Projection Scale MP-2016 from passed year 2009.

Disabled Lives:

Mortality rates for disabled retirees are based on CalPERS Industrial Disabled Annuitant Mortality, with no adjustment (Safety only), CalPERS Non-Industrial Disabled Annuitant Mortality, with no adjustment (General only), with Generational improvement using Projection Scale MP-2016 from base year of 2009

The actuarial assumptions used in the valuation as of June 30, 2016, updated to June 30, 2017, were based on 1) the demographic assumptions determined in the actuarial experience study on July 1, 2013-June 30, 2016 for the Pension Plan, and 2) current experience for OPEB Plan election by retirees. As the benefit for the OPEB plan is a fixed payment per year of service that is currently lower than the premiums paid for coverage, and expected to remain so into the future, no age-related costs are required to be developed.

The OPEB assets are invested in the same commingled vehicles as the pension plan, but with a simpler asset allocation. It is expected that as the OPEB assets continue to grow, the asset allocation will shift to be more like that of the pension plan. Therefore, in the long run, we expect the OPEB plan to realize the same long-term rate of return as the pension plan. The long-term expected rate of return, measure as of June 30, 2017, on pension plan investment (7.0%) was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Discount rate- SBCERS

The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that the SBCAG contributions will continue based upon the current OPEB (401(h) Account) funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make projected future benefit payment for current members for all future years. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all period of projected benefit payments to determine the total OPEB liability.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

G. Other Post-Employment Benefits (continued)

Changes in the OPEB Liability- SBCERS

The table below shows the changes in the total OPEB liability during the measurement period ending on June 30, 2017 for the SBCAG's proportionate share:

	<u>Total OPEB Liability</u>
Balance as of June 30, 2017 (Valuation date of June 30, 2016)	<u>\$ 683,822</u>
Service Cost	29,502
Interest	19,856
Change in assumptions	(82,792)
Employer contributions	(4,125)
Employee contributions	
Actual investment income	
Administrative expenses	488
Benefit payments	
Other	
Net change	<u>(37,071)</u>
Balance at June 30, 2018 (Measurement date June 30, 2017)	<u>\$ 646,751</u>

Sensitivity of the OPEB Liability to Changes in the Discount Rate-SBCERS

The following table shows the net OPEB liability with a discount rate 1% higher and 1% lower than assumed in the valuation.

	<u>1% Decrease</u>	<u>Current rate</u>	<u>1% Increase</u>
	<u>6.00%</u>	<u>7.00%</u>	<u>8.00%</u>
Net OPEB Liability	\$ 763,672	\$ 646,751	\$ 553,195

Sensitivity of the OPEB Liability to Changes in the Healthcare Cost Trend Rates-SBCERS

According to the actuary, since the dollar amount of the benefits provided are not expected to increase and are below the current premiums for health benefits, no trend assumptions are used in calculating the OPEB liabilities. Therefore, the results are not affected by any increase or decrease in the healthcare trend rates that may apply to the underlying benefit premiums in the future.

OPEB Plan Fiduciary Net Position-SBCERS

For the fiscal year ended June 30, 2018, the SBCAG recognized OPEB expense of \$33,286. OPEB expenses represents the change in the OPEB liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss and actuarial assumptions or methods. For fiscal year ended June 30, 2018, the SBCAG reported deferred outflows and inflows of resources related to OPEB from the following sources:

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

G. Other Post-Employment Benefits (continued)

OPEB Plan Fiduciary Net Position-SBCERS (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 5,293	\$ -
Differences between expected and actual experience		
Changes in assumptions		\$ 66,233
Net difference between projected and actual earnings on plan investments		
	\$ 5,293	\$ 66,233

The \$5,293 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amount reported as deferred outflows and inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

Fiscal year ending June 30:

2019	\$		(16,558)
2020			(16,558)
2021			(16,558)
2022			(16,559)
			\$ (66,233)

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

Notes to Basic Financial Statements

June 30, 2018

IV. Other Information (continued)

H. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 83	"Certain Asset Retirement Obligations"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 88	"Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements:"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 89	"Accounting for Interest Cost Incurred Before the End of a Construction Period"	The provision of this statement are effective for fiscal years beginning after December 15, 2019

I. New Accounting Pronouncements

For the fiscal year ending June 30, 2018, SBCAG has implemented Governmental Accounting Standards Board (GASB) Statement:

Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017 (FY 1718).
------------------	--	--

The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. Implementation of the GASB Statements No. 75 and the impact on SBCAG's financial statements are explained in Note IV.G, pages 40 through 48 – Other Post-Employment Benefits.

J. Prior Period Adjustments

A prior period adjustment of (\$1,143,626) on the government wide financial statements was to setup the beginning balance for Net OPEB Liability. This adjustment was due to the implementation of GASB Statement No. 75. A prior period adjustment was made to the General Fund of \$ 132,965 to properly reflect sales tax revenues in the proper period to the Transportation Development Act for \$74,952 and Measure A sales tax for \$58,013. In addition, a prior period adjustment was made to the Ordinance Number Five Highway Development Fund to properly reflect Measure A sales tax revenues in the proper period for \$2,040,904. The restatement shown on the Government-wide, Statement of Activities (Page 15) for the prior period adjustments identified above totaled \$1,030,243.

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 Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Transportation Development Act tax	\$ 526,900	\$ 526,900	\$ 519,710	\$ (7,190)
Measure D sales tax	564,400	564,400	390,616	(173,784)
Use of money and property	5,000	5,000	7,205	2,205
Intergovernmental	3,787,200	4,236,873	2,828,638	(1,408,235)
Other	1,007,500	854,700	890,892	36,192
Total revenues	5,891,000	6,187,873	4,637,061	(1,550,812)
EXPENDITURES:				
Current:				
Salaries and benefits	3,291,800	3,291,800	2,849,164	442,636
Services and supplies	2,671,900	3,227,700	2,290,763	936,937
Other	25,700	25,700	16,823	8,877
Total expenditures	5,989,400	6,545,200	5,156,750	1,388,450
Excess (deficiency) of revenues over (under) expenditures	(98,400)	(357,327)	(519,689)	(162,362)
OTHER FINANCING SOURCES:				
Transfers in	98,400	98,400	132,082	33,682
Total other financing sources	98,400	98,400	132,082	33,682
Net change in fund balance		(258,927)	(387,607)	(128,680)
Fund balance, beginning of year	789,897	789,897	789,897	
Fund balance, end of year	\$ 789,897	\$ 530,970	\$ 402,290	\$ (128,680)

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 (Measure D)
For the Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Use of money and property	\$ 600	\$ 600	\$ 414	\$ (186)
Total revenues	<u>600</u>	<u>600</u>	<u>414</u>	<u>(186)</u>
EXPENDITURES:				
Current:				
Services and supplies	36,500	36,500	11,768	24,732
Total expenditures	<u>36,500</u>	<u>36,500</u>	<u>11,768</u>	<u>24,732</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(35,900)</u>	<u>(35,900)</u>	<u>(11,354)</u>	<u>24,546</u>
OTHER FINANCING USES:				
Transfers out	(98,400)	(98,400)	(119,931)	(21,531)
Total other financing uses	<u>(98,400)</u>	<u>(98,400)</u>	<u>(119,931)</u>	<u>(21,531)</u>
Net change in fund balance	(134,300)	(134,300)	(131,285)	3,015
Fund balance, beginning of fiscal year	131,285	131,285	131,285	
Fund balance, end of fiscal year	<u>\$ (3,015)</u>	<u>\$ (3,015)</u>	<u>\$ -</u>	<u>\$ 3,015</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)
Service Authority for Freeway Emergencies
For the Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Use of money and property	\$ 9,000	\$ 9,000	\$ 13,191	\$ 4,191
Intergovernmental	560,000	560,000	394,281	(165,719)
Other	100	100	20	(80)
Total revenues	<u>569,100</u>	<u>569,100</u>	<u>407,492</u>	<u>(161,608)</u>
EXPENDITURES:				
Current:				
Services and supplies	439,100	439,100	348,740	90,360
Capital outlay	35,000	35,000	77,444	(42,444)
Total expenditures	<u>474,100</u>	<u>474,100</u>	<u>426,184</u>	<u>47,916</u>
Excess (deficiency) of revenues over (under) expenditures	<u>95,000</u>	<u>95,000</u>	<u>(18,692)</u>	<u>(113,692)</u>
OTHER FINANCING SOURCES:				
Transfers out	(139,400)	(139,400)	(139,400)	
Total other financing sources	<u>(139,400)</u>	<u>(139,400)</u>	<u>(139,400)</u>	
Net change in fund balance	(44,400)	(44,400)	(158,092)	(113,692)
Fund balance, beginning of fiscal year	1,335,716	1,335,716	1,335,716	
Fund balance, end of fiscal year	<u>\$ 1,291,316</u>	<u>\$ 1,291,316</u>	<u>\$ 1,177,624</u>	<u>\$ (113,692)</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)
Traffic Solutions
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Use of money and property	\$ 300	\$ 300	\$ 518	\$ 218
Intergovernmental	205,000	205,000	34,229	(170,771)
Other	28,000	28,000	24,821	(3,179)
Total revenues	<u>233,300</u>	<u>233,300</u>	<u>59,568</u>	<u>(173,732)</u>
EXPENDITURES:				
Current:				
Services and supplies	315,200	315,200	192,141	123,059
Total expenditures	<u>315,200</u>	<u>315,200</u>	<u>192,141</u>	<u>123,059</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(81,900)</u>	<u>(81,900)</u>	<u>(132,573)</u>	<u>(50,673)</u>
OTHER FINANCING SOURCES:				
Transfers in	149,400	149,400	127,249	(22,151)
Total other financing sources	<u>149,400</u>	<u>149,400</u>	<u>127,249</u>	<u>(22,151)</u>
Net change in fund balance	67,500	67,500	(5,324)	(72,824)
Fund balance, beginning of year	5,324	5,324	5,324	
Fund balance, end of year	<u>\$ 72,824</u>	<u>\$ 72,824</u>	<u>\$ -</u>	<u>\$ (72,824)</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 Five - Highway Development (Measure A)
For the Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Measure A sales tax	\$ 12,729,499	\$ 12,082,591	\$ 13,052,569	\$ 969,978
Use of money and property	60,001	56,339		(56,339)
Total revenues	<u>12,789,500</u>	<u>12,138,930</u>	<u>13,052,569</u>	<u>913,639</u>
EXPENDITURES:				
Current:				
Services and supplies	21,312,600	20,496,700	15,786,551	4,710,149
Other	325,000	325,000	136,367	188,633
Total expenditures	<u>21,637,600</u>	<u>20,821,700</u>	<u>15,922,918</u>	<u>4,898,782</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,848,100)</u>	<u>(8,682,770)</u>	<u>(2,870,349)</u>	<u>5,812,421</u>
OTHER FINANCING USES:				
Transfers out	(10,000)	(10,000)		10,000
Transfers in		567,887	567,887	
Loan to enterprise fund		(1,500,000)	(1,500,000)	
Total other financing uses	<u>(10,000)</u>	<u>(942,113)</u>	<u>(932,113)</u>	<u>10,000</u>
Net change in fund balance	(8,858,100)	(9,624,883)	(3,802,462)	5,822,421
Fund balance, beginning of fiscal year	24,262,599	24,262,599	24,262,599	
Fund balance, end of fiscal year	<u>\$ 15,404,499</u>	<u>\$ 14,637,716</u>	<u>\$ 20,460,137</u>	<u>\$ 5,822,421</u>

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

Note to Required Supplementary Information

Stewardship, Compliance, and Accountability

A. Budgetary Information

Budgets are adopted annually on a cash basis for the General Fund and each of our four special revenue funds. The cash basis differs from accounting principles generally accepted in the United States of America (USGAAP); therefore, a reconciliation of the budgetary cash basis to USGAAP 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 used to shift costs from fund to fund rather than to implement to expenditures.

B. Excess of Expenditures Over Appropriations

For the fiscal year, ended June 30, 2018 appropriation adjustments were required in the Service Authority for Freeway Emergencies fund to shift available appropriations between object levels in the amount of \$45,000 in order to purchase changeable message signs not initially planned in the fiscal year. The General fund required an increase of \$555,800 in appropriations to cover a wide variety of professional service work not planned during the initial budget adoption which include: the Goleta Ramp Metering project \$11,800, ALUP Update and Environmental Review \$155,000, 101 HOV Environmental Document \$200,000 and multiple Senate Bill 1 (SB1) funded activities totaling 189,000.

C. Budgetary/USGAAP 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 accounting principles generally accepted in the United States of America (USGAAP). The following table reconciles the amounts on the Schedules of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (which are presented on a non-USGAAP budgetary basis) to the amounts on the Statement of Revenues, Expenditures, and Changes in Fund Balances –Governmental Funds for the following governmental funds:

	<u>General Fund</u>	<u>Ord. No. One Highway Development</u>	<u>Service Authority for Freeway Emergencies</u>	<u>Traffic Solutions</u>	<u>Ord. No. Five Highway Development</u>
Fund balances (budgetary basis)	\$ 402,290	\$ -	\$ 1,177,624	\$ -	\$ 20,460,137
Basis differences:					
Revenue accruals	961,211		91,885		3,734,155
Expenditure accruals	(1,021,530)		(30,793)		(1,809,129)
Fair value adjustments	(2,693)		(7,894)		
Fund balance (GAAP basis)	<u>\$ 339,278</u>	<u>\$ -</u>	<u>\$ 1,230,822</u>	<u>\$ -</u>	<u>\$ 22,385,163</u>

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Schedule of Changes in SBCAG's Net OPEB Liability and Related Ratios
California Public Employee Retirement System (CalPERS)
AS OF JUNE 30, 2018
Last 10 Years*

	<u>FY 2018</u>
Total OPEB liability	
Service cost	\$ 15,766
Interest	54,254
Actual and expected experience difference	
Changes of assumptions	
Benefit payments	(32,657)
Net change in total OPEB liability	37,363
Total OPEB liability - beginning	783,716
Total OPEB liability - ending (a)	821,079
Plan fiduciary net position	
Contributions - employer Net investment income	\$ 57,657
Actual investment income	3,463
Administrative expense	(17)
Benefit payments	(32,657)
Net change in plan fiduciary net position	28,446
Plan fiduciary net position- beginning	25,342
Plan fiduciary net position - ending (b)	53,788
SBCAG's net OPEB liability - ending (a)- (b)	\$ 767,291
Plan fiduciary net position as a percentage of the total OPEB liability	6.55%
Covered payroll	\$ 1,164,432
SBCAG's net OPEB liability as a percentage of covered payroll	65.89%
Measurement date	6/30/2017

* Fiscal year 2018 was the first year of implementation. Additional years will be presented as they become available.

The information presented above relates solely to SBCAG and not CalPERS as a whole.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Schedule of Changes in SBCAG's Net OPEB Liability and Related Ratios
Santa Barbara Employees' Retirement System (SBCERS)
AS OF JUNE 30, 2018
Last 10 Years*

	<u>FY 2018</u>
Total OPEB liability	
Service cost	\$ 29,502
Interest	19,856
Actual and expected experience difference	
Changes of assumptions	(82,792)
Benefit payments	<u>(3,637)</u>
Net change in total OPEB liability	(37,071)
Total OPEB liability - beginning	<u>683,822</u>
Total OPEB liability - ending (a)	<u><u>\$ 646,751</u></u>
Covered payroll	\$ 1,832,848
SBCAG's total OPEB liability as a percentage of covered payroll	35.29%
Measurement date	6/30/2017

* Fiscal year 2018 was the first year of implementation. Additional years will be presented as they become available.

The information presented above relates solely to SBCAG and not the SBCERS system as a whole.

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS
Schedule of OPEB Contributions
AS OF JUNE 30, 2018
Last 10 Years*

As of June 30, 2018, the plan is not administered through qualified trust. Therefore, there is no Actuarially Determined Contribution (ADC). Benefit payments were made on a pay-as-you go bases for the fiscal year ended June 30, 2018 as follows:

California Public Employee Retirement System (CalPERS)

	2018
Employer contributions	\$ 39,747
OPEB Trust	25,000
Total CalPERS contributions	\$ 64,747

Santa Barbara Employees' Retirement System (SBCERS)

	2018
Employer contributions	\$ 5,293
Total SBCERS contributions	\$ 5,293

* Fiscal year 2018 was the first year of implementation. Additional years will be presented as they become available

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNEMENT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
AS OF JUNE 30, 2018
Last 10 Years *

The following table provides required supplementary information regarding SBCAG's pension plan.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.4852%	0.5023%	0.4982%	0.5061%
Proportionate share of the net pension liability	\$ 4,564,615	\$ 4,222,905	\$ 3,625,042	\$ 3,088,924
Covered payroll	\$ 2,035,082	\$ 1,928,739	\$ 1,858,941	\$ 1,834,104
Proportionate share of the net pension liability as percentage of covered payroll	224.3%	218.9%	195.0%	168.4%
Plan's total pension liability	\$ 3,742,076,485	\$ 3,395,252,229	\$ 3,260,156,781	\$ 3,123,968,401
Plan's fiduciary net position	\$ 2,801,306,795	\$ 2,554,538,523	\$ 2,532,528,974	\$ 2,513,629,759
Plan fiduciary net position as a percentage of the total pension liability	74.86%	75.24%	77.68%	80.46%

* Fiscal year 2015 was the 1st year of implementation.

See Note to Required Supplementary Information

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENT
SCHEDULE OF PENSION CONTRIBUTIONS
AS OF JUNE 30, 2018
Last 10 Years *

The following table provides required supplementary information regarding SBCAG's Pension Plan.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 604,559	\$ 633,668	\$ 627,209	\$ 607,935
Contribution in relation to the actuarially determined contributions	604,559	633,668	627,209	607,935
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,832,848	\$ 2,035,082	\$ 1,928,739	\$ 1,858,941
Contributions as a percentage of covered payroll	32.98%	31.14%	32.52%	32.70%

See Note to Required Supplementary Information

Notes to Schedule

Valuation Date: 6/30/2017 6/30/2014 6/30/2013 6/30/2013

Timing

Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year

Methods and assumptions used to determine contribution rates:

Actuarial cost method

Entry Age - all years

Asset valuation method

Market Value

5-year smoothed market

5-year smoothed market

Amortization method

As of the 2013 actuarial valuation, the unfunded actuarial liability was amortized over a closed 17-year period as a level percentage of payroll. Effective with the 2014 valuation, any additional sources of UAL due to actuarial gains and losses, assumptions changes, or method changes are amortized over a closed 19-year period with a 5-year ramp up period at the beginning of the period, a 4-year ramp down at the end of the period and 10 years of level payments as a percentage of payroll.

Discount rate

7.50 % net of investment expenses and to be reduced to 7.00% as a result of 6/30/16 actuarial valuation.

Amortization growth rate

3.5% - all years

Price Inflation

3% - all years

Salary increases

3.50% plus merit component based on employee classification and years of service

Cost-of-living adjustments (COLA)

The Basic COLA as measured by the CPI will increase at a rate of 3% per year, Post-Retirement COLA are assumed to increase at 2.75% for General Plan 5A and 8 (PEPRA)

Mortality

Sex distinct RP-2000 Combined Mortality, with generational improvements using Scale BB

* Fiscal year 2015 was the 1st year of implementation.