



CPAs AND ADVISORS

CITY OF SANTA BARBARA

CALIFORNIA LAW ENFORCEMENT TELECOMMUNICATIONS SYSTEM/ MESSAGE SWITCHING SYSTEM JOINT POWERS ASSOCIATION

JUNE 30, 2018

FINANCIAL STATEMENTS

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CITY OF SANTA BARBARA
CALIFORNIA LAW ENFORCEMENT
TELECOMMUNICATIONS SYSTEM/
MESSAGE SWITCHING SYSTEM
JOINT POWERS ASSOCIATION

JUNE 30, 2018

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CALIFORNIA LAW ENFORCEMENT
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JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report	1
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3
Basic Financial Statements:	
Statement of Net Position	5
Statement of Activities and Change in Net Position	6
Statement of Cash Flows	7
Notes to the Basic Financial Statements	8



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
California Law Enforcement Telecommunications System
Message Switching System Joint Powers Association
City of Santa Barbara, California

Report on the Financial Statements

We have audited the accompanying financial statements of the California Law Enforcement Telecommunications System/Message Switching System Joint Powers Association (the "Association") of the City of Santa Barbara, California, (the City) as of and for the year ended June 30, 2018, and the related statement of activities and change in net position, the statement of cash flows for the year then ended, and the related notes to the 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 from 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 auditor's 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 the 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.



To the Honorable Mayor and Members of the City Council
California Law Enforcement Telecommunications System
Message Switching System Joint Powers Association
City of Santa Barbara, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the California Law Enforcement Telecommunications System/ Message Switching System Joint Powers Association of the City of Santa Barbara as of June 30, 2018, and the respective changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Prior Year Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2017, from which such partial information was derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018 on our consideration of the California Law Enforcement Telecommunications System/Message Switching System Joint Powers Association (the "Association") of the City of Santa Barbara's 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.

Brea, California
November 26, 2018



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of City Council
California Law Enforcement Telecommunications System
Message Switching System Joint Powers Association
City of Santa Barbara, California

We have audited, in accordance with the 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, the financial statements of the California Law Enforcement Telecommunications System/Message Switching System Joint Powers Association of the City of Santa Barbara, California, (the "Association") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated November 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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





CPAs AND ADVISORS

To the Honorable Mayor and Members of City Council
California Law Enforcement Telecommunications System
Message Switching System Joint Powers Association
City of Santa Barbara, California

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Loughard, LLP

Brea, California
November 26, 2018

CITY OF SANTA BARBARA
 CALIFORNIA LAW ENFORCEMENT TELECOMMUNICATIONS SYSTEM/
 MESSAGE SWITCHING SYSTEM JOINT POWERS ASSOCIATION

STATEMENT OF NET POSITION
 JUNE 30, 2018

(with summarized information for June 30, 2017)

	<u>2018</u>	<u>2017</u>
Assets:		
Pooled cash and investments	\$ 81,980	\$ 51,423
Receivables:		
Accounts	58,093	30,249
Equipment	180,000	180,000
Less: accumulated depreciation	<u>(180,000)</u>	<u>(180,000)</u>
Total Assets	<u>140,073</u>	<u>81,672</u>
Liabilities:		
Accounts payable	<u>2,296</u>	<u>216</u>
Total Liabilities	<u>2,296</u>	<u>216</u>
Net Position:		
Restricted for Public Safety	<u>137,777</u>	<u>81,456</u>
Total Net Position	<u>\$ 137,777</u>	<u>\$ 81,456</u>

**CITY OF SANTA BARBARA
CALIFORNIA LAW ENFORCEMENT TELECOMMUNICATIONS SYSTEM/
MESSAGE SWITCHING SYSTEM JOINT POWERS ASSOCIATION**

**STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION
JUNE 30, 2018
(with summarized information for June 30, 2017)**

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Operating reimbursements from member agencies	\$ 243,592	\$ 253,172
Total operating revenues	<u>243,592</u>	<u>253,172</u>
Operating Expenses:		
Contractual Services	187,997	264,096
Total operating expenses	<u>187,997</u>	<u>264,096</u>
Operating Income (Loss)	55,595	(10,924)
Nonoperating Income (Expense)		
Interest income (expense)	726	112
Total nonoperating income (expense)	<u>726</u>	<u>112</u>
Change in net position	56,321	(10,812)
Net Position:		
Beginning of year	81,456	92,268
End of year	<u>\$ 137,777</u>	<u>\$ 81,456</u>

CITY OF SANTA BARBARA
CALIFORNIA LAW ENFORCEMENT TELECOMMUNICATIONS SYSTEM/
MESSAGE SWITCHING SYSTEM JOINT POWERS ASSOCIATION

STATEMENT OF CASH FLOWS
JUNE 30, 2018

(with summarized information for June 30, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from Operating Activities:		
Cash received from member agencies	\$ 215,748	\$ 237,041
Cash payments for contractual services	<u>(185,917)</u>	<u>(263,881)</u>
Net cash provided by operating activities	<u>29,831</u>	<u>(26,840)</u>
Cash flows Financing Activities:		
Interest received (paid)	<u>726</u>	<u>112</u>
Net cash provided by (used in) financing activities	<u>726</u>	<u>112</u>
Net income (decrease in cash)	30,557	(26,728)
Cash and cash equivalents:		
Beginning of year	<u>51,423</u>	<u>78,151</u>
End of year	<u>\$ 81,980</u>	<u>\$ 51,423</u>
Reconciliation of operating losses to net cash provided by operating activities		
Operating Income (losses)	\$ 55,595	\$ (10,924)
Adjustments to reconcile operating (losses) to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(27,844)	(16,131)
Increase (decrease) in accounts payable	<u>2,080</u>	<u>215</u>
Net cash provided by operating activities	<u>\$ 29,831</u>	<u>\$ (26,840)</u>

**CITY OF SANTA BARBARA
CALIFORNIA LAW ENFORCEMENT TELECOMMUNICATIONS SYSTEM/
MESSAGE SWITCHING SYSTEM JOINT POWERS ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Organization and Summary of Significant Accounting Policies

The basic financial statements of the California Law Enforcement Telecommunications System/Message Switching System Joint Powers Association (Association) have been prepared in conformity with generally accepted accounting principles as applied to governmental agencies. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Association's accounting policies are described below.

a. Description of the Reporting Entity

The California Law Enforcement Telecommunications System (CLETS) is designed to provide all law enforcement agencies the capability of obtaining information directly from federal, state and local computerized information files. In addition, the systems provide fast and efficient point-to-point delivery of messages between agencies.

CLETS is a cooperative system whereby the State of California provides central switching equipment, personnel to staff the switching center and sufficient circuitry from the switching center to such locations as authorized by law to handle law enforcement message traffic. Circuitry and terminal equipment to extend beyond the CLETS termination point in each county is provided by client agencies such as the Association.

The Association was created by its members in June 1990 pursuant to a joint exercise of powers agreement. The Association currently consists of the following 15 members:

- Allan Hancock College Police Department
- Guadalupe Police Department
- Lompoc Police Department
- Los Padres National Forest
- Santa Barbara City Airport Patrol
- Santa Barbara City Harbor Patrol
- Santa Barbara City Police Department
- Santa Barbara County Probation
- Santa Barbara County Sheriff
- Santa Barbara District Attorney
- Santa Maria Federal Bureau of Investigation
- Santa Maria Police Department
- Superior Court of California
- University of California Santa Barbara Police Department
- Vandenberg AFB Security Forces

The Association was established pursuant to Sections 6500-6515 of the State of California Government Code. The Association acts as a legal entity, separate and distinct from the City of Santa Barbara (City) and its other member agencies. The actions of the Association are binding and all business is routinely transacted in the Association's name.

**CITY OF SANTA BARBARA
CALIFORNIA LAW ENFORCEMENT TELECOMMUNICATIONS SYSTEM/
MESSAGE SWITCHING SYSTEM JOINT POWERS ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

The Association is empowered to engage in the ongoing operation, maintenance and improvement of the CLETS regional network, as needed, to provide a forum for member agencies to provide recommendations and comments to the technical advisors and to assist in the development of rules and regulations governing the participation of member agencies.

The City acts as administrator of the Association. As administrator, the City performs all of the administrative functions of the Association. The City maintains the centralized computer hardware and software and procures all new computer equipment and workstations. The City's finance department performs all accounting functions for the Association and administers the Association's cash and investment activities using the City's central cash pool. The Association reimburses the City for costs incurred on behalf of the Association on a semiannual basis.

b. Basis of Accounting

The basic financial statements (i.e., the Statement of Net Position, the Statement of Activities and Changes in Net Position, and the Statement of Cash Flows) report information on all of the activities of the Association. These basic financial statements are presented in accordance with GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments* and other related standards.

The basic financial statements are prepared using the economic resource 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 Activities 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 the liability is incurred.

The Association distinguishes operating revenues and expenses from nonoperating items. Operating revenues, such as reimbursements from member agencies, result from exchange transactions associated with the principal activity of the Association. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses include the contractual services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. Capital Assets

Capital assets consist of equipment which is stated at cost, net of accumulated depreciation, except for the portions acquired by contribution, which are recorded at fair value at the time received. Depreciation is recorded using the straight-line method and a half-year convention with no allowance for salvage values. The estimated useful lives used in computing depreciation of equipment range from five to ten years.

**CITY OF SANTA BARBARA
CALIFORNIA LAW ENFORCEMENT TELECOMMUNICATIONS SYSTEM/
MESSAGE SWITCHING SYSTEM JOINT POWERS ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

d. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2: Capital Assets

At June 30, 2018, the Association's capital assets consisted of the following:

	Balance July 1, 2017	Balance June 30, 2018
Equipment	\$ 180,000	\$ 180,000
Less accumulated depreciation	(180,000)	(180,000)
Equipment, net	<u>\$ -</u>	<u>\$ -</u>

Note 3: Risk Management

The Association is included in the City's risk management program. The City is partially self-insured for workers' compensation and general and automobile liability claims, and fully self-insured for unemployment claims. There have been no significant changes in insurance coverage as compared to last year and settlements have not exceeded coverage in any of the past three fiscal years.

The City's workers' compensation program maintains a self-insured retention of \$750,000. The City purchases an excess insurance policy that provides statutory limits in excess of the City's self-insured retention. The excess insurance coverage consists of a \$5 million pooled layer above the City's self-insured retention amount plus the use of commercial insurance above the pooled layer. Employers' Liability coverage is also included within the limits of the \$5 million pooled layer.

The City's general and automobile liability program maintains a self-insured retention of \$1,000,000. Excess liability coverage is provided through a Joint Powers Agreement. The City joined the Authority of California Cities Excess Liability (ACCEL) in May 1986. ACCEL is a public entity risk sharing pool created for the purpose of pooling various public sector risks. ACCEL began its 32nd program year July 2017 with membership totaling twelve (12) cities. ACCEL was formed under the Joint Powers Agreement (JPA) provisions of State Law (Government Code Sections 990, 990.4, 990.8 and 65006515). In addition to the joint powers agreement, ACCEL is governed by bylaws, an investment policy, and a Memorandum of Coverage, adopted by the ACCEL members.

**CITY OF SANTA BARBARA
CALIFORNIA LAW ENFORCEMENT TELECOMMUNICATIONS SYSTEM/
MESSAGE SWITCHING SYSTEM JOINT POWERS ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Note 3: Risk Management (Continued)

ACCEL now transfers most of its risk sharing exposures through the purchase of a four layer commercial policy underwritten by various carriers. ACCEL members have a \$1 million self-insured retention. ACCEL pools the next \$4 million and commercial carriers provide \$45 million in coverage above that level. Thus the City's participation in ACCEL provides liability coverage of \$50 million.

A Memorandum of Coverage acts as the instrument by which member cities are protected against covered losses above the self-insured retention (SIR). This document also serves as the manuscript form for which the commercial carriers provide coverage. Coverage includes comprehensive general and automobile liability protecting against bodily injury, property damage, public officials errors and omissions, personal injury, employment practices, as well as damages arising from owned, non-owned, and hired automobiles.

A Board of Directors consisting of one representative from each member city governs ACCEL. This Board controls all aspects of ACCEL policy including budgeting, finance, underwriting, and claims. ACCEL conducts annual financial, claims, and payroll audits, with an actuarial review performed every two years. A retrospective rating is performed each year on the program year ended five years earlier. The retrospective rating determines each member's share of losses and deposit return.

ACCEL members share pooled losses above their self-insured retention. Losses are paid from a pool of funds comprised of member deposits. Deposits are actuarially determined to ensure that funds are available to pay any losses within the pooled layer. ACCEL collects a deposit from each member for each program year in which the member participates. Separate deposit accounts are set for each member for each year of participation. Deposits are invested into pre-approved vehicles and each member account is credited monthly with investment income at the rate earned by the investment vehicle. ACCEL adopted its investment policy in accordance with existing government code criteria.

Insurable property is covered for all risks by policies with a pooled aggregate limit of \$1 billion. Earthquake and flood coverage have designated limits of \$75 million per peril. Unique risks such as airport liability, marine hull protection and indemnity, and boiler and machinery are fully insured. The City also maintains a faithful performance bond. The City filed two claims under the property insurance policy during fiscal year 2018, a claim for property damage from a microburst storm in September 2017, and a claim for property damage from the Thomas Fire in December 2017. No other claims were filed during fiscal year 2018.