



CITY OF SANTA BARBARA

AIRPORT PASSENGER FACILITY CHARGE FUND

JUNE 30, 2018 COMPLIANCE REPORT

Focused
on YOU



CITY OF SANTA BARBARA
AIRPORT PASSENGER FACILITY CHARGE FUND
COMPLIANCE REPORT

JUNE 30, 2018

CITY OF SANTA BARBARA
AIRPORT PASSENGER FACILITY CHARGE FUND
COMPLIANCE REPORT

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
Independent Auditors' Report on Compliance with Applicable Requirements And Report on Internal Control Over Compliance	5
Financial Statements:	
Statement of Fund Net Position.....	7
Statement of Revenues, Expenses and Change in Fund Net Position.....	8
Statement of Cash Flows	9
Notes to the Financial Statements.....	10
Supplementary Information:	
Schedule of Expenses of the PFC Fund	14
Schedule of Findings and Recommendations.....	15
Status of Prior Year Findings and Recommendations	16



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Santa Barbara, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Airport Passenger Facility Charge Fund (PFC Fund) of the City of Santa Barbara, which comprise the statement of fund net position as of June 30, 2018 and the related statement of revenues, expenses, and change in fund net position, the statement of cash flows for the year then ended, and the related notes to the financial statements.

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 an opinion 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 PFC Fund'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 PFC Fund'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 opinion.



To the Honorable Mayor and Members of the City Council
City of Santa Barbara, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Passenger Facility Charge Fund of the City of Santa Barbara as of June 30, 2018, and the change in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statement, the financial statement is prepared in accordance with the Airport Passenger Facility Charge Program Fund which requires a financial statement that presents only the Program and does not purport to, and does not, present fairly the financial position of the City of Santa Barbara as of June 30, 2018, and the changes in the City of Santa Barbara's financial position for the year then ended in conformity 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2019, on our consideration 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* and should be considered in assessing the results of our audit.

Lance, Soll & Luyhard, LLP

Brea, California
March 19, 2019



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
Airport Passenger Facility Charge Fund
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 Airport Passenger Facility Charge Fund of the City of Santa Barbara, California, (the Fund) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated March 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and recommendations as finding 2018-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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*.





To the Honorable Mayor and Members of City Council
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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Solt & Loughard, LLP

Brea, California
March 19, 2019



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and Members of City Council
City of Santa Barbara, California

Report on Compliance

We have audited the compliance of the Passenger Facility Charge Program Fund of the City of Santa Barbara (the Fund) with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for the Fund's compliance with laws, regulations, contracts, and requirements applicable to the Guide issued by the Federal Aviation Administration.

Auditors' Responsibility

Our responsibility is to express an opinion on the Fund's compliance based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a material effect on the Passenger Facility Charge Program Fund occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination of the Fund's compliance with those requirements.

Opinion

In our opinion, the Fund complied, in all material respects, with the requirements referred to above that are applicable to the Guide for the year ended June 30, 2018.

Report on Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements listed above. In planning and performing our audit, we considered the Fund's internal control over compliance with the requirements that could have a direct and material effect on the Fund in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.



To the Honorable Mayor and Members of City Council
City of Santa Barbara, California

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide issued by the Federal Aviation Administration that are applicable to the Passenger Facility Charge Program Fund. Accordingly, this communication is not suitable for any other purpose.

Brea, California
March 19, 2019

CITY OF SANTA BARBARA
AIRPORT PASSENGER FACILITY CHARGE FUND

STATEMENT OF FUND NET POSITION
JUNE 30, 2018

Assets:

Current:

Cash and investments \$ 3,236,749

Receivables:

Accounts 270,125

Total Assets 3,506,874

Net Position:

Restricted for airport improvements 3,506,874

Total Net Position \$ 3,506,874

CITY OF SANTA BARBARA
AIRPORT PASSENGER FACILITY CHARGE FUND

STATEMENT OF REVENUES, EXPENSES
AND CHANGE IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

Operating Revenues:

Passenger facility charges	\$ 1,445,708
Total Operating Revenues	<u>1,445,708</u>

Nonoperating Revenues:

Interest income	18,808
Total Nonoperating Revenues	<u>18,808</u>

Income Before Transfers 1,464,516

Transfers out	<u>(1,313,907)</u>
Change in Net Position	<u>\$ 150,609</u>

Net Position:

Beginning of Fiscal Year, as originally reported	\$ 3,134,585
Restatements	<u>221,680</u>
Beginning of Fiscal Year, as restated	3,356,265
Change in Net Position	<u>150,609</u>

End of Fiscal Year **\$ 3,506,874**

CITY OF SANTA BARBARA
AIRPORT PASSENGER FACILITY CHARGE FUND

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

Cash Flows from Operating Activities:	
Cash received from customers and tenants	\$ 1,397,263
Net Cash Provided by Operating Activities	<u>1,397,263</u>
Cash Flows from Capital and Related Financing Activities:	
Transfers out/bond payment	<u>(1,313,907)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(1,313,907)</u>
Cash Flows from Investing Activities:	
Interest received	<u>18,808</u>
Net Cash Provided by Investing Activities	<u>18,808</u>
Net Increase (Decrease) in Cash and Cash Equivalents	102,164
Cash and Cash Equivalents at Beginning of Year	<u>3,134,585</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,236,749</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating income	\$ <u>1,445,708</u>
Adjustments to reconcile operating income net cash provided by operating activities:	
Depreciation	
(Increase) decrease in accounts receivable	<u>(48,445)</u>
Total Adjustments	<u>(48,445)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,397,263</u>

**CITY OF SANTA BARBARA
AIRPORT PASSENGER FACILITY CHARGE FUND**

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

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The financial statements of the Airport Passenger Facility Charge Fund (PFC Fund) are intended to present the financial position and results of operations of only those transactions attributable to the PFC Fund that is operated by the City of Santa Barbara, California (City). The financial statements of the PFC Fund are included in the basic financial statements of the City. The accounting policies of the PFC Fund of the City are in conformity with generally accepted accounting principles in the United States of America applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

b. Basic Financial Statements

The financial statements of the PFC Fund include the Statement of Fund Net Position, the Statement of Revenues, Expenses and Change in Fund Net Position, and the Statement of Cash Flows. These financial statements are presented in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and other related standards. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Fund Net Position. The Statement of Revenues, Expenses and Change in Fund Net Position presents increases (revenues) and decreases (expenses) in total fund net position.

c. Fund Accounting

The accounts of the City are organized on the basis of funds which are considered to be separate accounting entities. The operations of the PFC Fund are accounted for in a separate set of self-balancing accounts that comprise the PFC Fund's assets, liabilities, net position, revenues and expenses. Government resources are allocated to and for individual funds based on the purposes for which they are spent and means by which spending activities are controlled. The fund represented in the PFC Fund's financial statements is a proprietary fund type.

d. Basis of Accounting

The City accounts for the activities of the PFC Fund in an enterprise fund maintained on the accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred. The City applies all applicable GASB pronouncements.

e. Cash and Investments

The City pools its available cash for investment purposes. The City's cash and investments include cash on hand, demand deposits, and investments. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. The City participates in an investment pool managed by the State of California titled *Local Agency Investment Fund (LAIF)* which has invested a portion of the

**CITY OF SANTA BARBARA
AIRPORT PASSENGER FACILITY CHARGE FUND**

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

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

pool funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk as to change in interest rates.

f. Use of Estimates

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

Note 2: Cash and Investments

The PFC Fund had cash and investments in the amount of \$3,236,749 at June 30, 2018. The PFC Fund does not own specifically identifiable securities and its cash is pooled with that of the City. The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investments balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

a. Authorized Investments

Under the provisions of the City's investment policy, and in accordance with the California Government Code, the following investments are authorized:

- Local Agency Bonds
- U.S. Treasury Obligations
- U.S. Agency Securities
- State of California/Local Agency Obligations
- Bankers' Acceptances
- Commercial Paper
- Certificates of Deposits
- Repurchase Agreements
- Reverse Repurchase Agreements
- Medium-Term Notes
- U.S. Government Money Market Funds
- Bank/Time Deposits/Non-negotiable Certificates of Deposits
- State Investment Pool (LAIF)

The City is a voluntary participant in Local Agency Investment Fund (LAIF), which is an external investment pool regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investment with LAIF at June 30, 2018, includes a portion of the pool funds invested in structured notes and asset-backed securities. The City values its investments in LAIF at a fair market value provided by LAIF.

**CITY OF SANTA BARBARA
AIRPORT PASSENGER FACILITY CHARGE FUND**

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

Note 2: Cash and Investments (Continued)

b. Deposits and Investment Risks

The California Government Code requires California banks and savings and loans associations to secure the City's cash deposits by pledging securities as collateral. The fair value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. All uninsured cash deposits are fully collateralized.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. All investments that are rated held by the City at June 30, 2018, were in accordance with State law and City policy.

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 custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision 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 (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Custodial credit risks relating to deposits and investments: none of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in Federal Agencies have the implied guarantee of the United States government. While all the City's investments are in compliance with the City's investment policy as of June 30, 2018, in accordance with GASB Statement No. 40, if a City has invested more than 5% of its total investments in any one issuer, they are exposed to concentration of credit risk. Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

**CITY OF SANTA BARBARA
AIRPORT PASSENGER FACILITY CHARGE FUND**

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

Note 2: Cash and Investments (Continued)

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 is, the greater the sensitivity its fair value will be to changes in market interest rates. In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the weighted average maturity to 2 ½ years. In addition, the City employs a “buy and hold” investment strategy whereby investments are held to maturity at which time the investment is redeemed at par. This strategy limits the City’s exposure to declines in fair value to unforeseen emergencies when the need for cash beyond that which is planned and anticipated may arise. Portfolio diversification is also employed as a way to control risk, including those associated with market changes or issuer default. To control market price risks, volatile investments are avoided, and to control risks of illiquidity, a minimum of 10% of the total portfolio is held in highly marketable U.S. Treasury Bills and Notes and/or the State of California Local Agency Investment Fund (LAIF) and/or Money Market Funds and/or securities maturing within 90 days.

Note 3: Commitments and Contingencies

As of June 30, 2018, in the opinion of City management, there were no outstanding matters that would have a significant effect on the financial position of the PFC Fund.

Note 4: Net Position Restatement

Beginning net position was restated to reclassify revenue received in July and August 2017 that should have been accrued as a receivable in the prior fiscal year.

CITY OF SANTA BARBARA
 AIRPORT PASSENGER FACILITY CHARGE FUND

SCHEDULE OF EXPENSES OF THE PFC FUND
 JUNE 30, 2018

	PFC Quarterly Report Total Amount Expended For the Quarter Ended			
	<u>9/30/2017</u>	<u>12/31/2017</u>	<u>3/31/2018</u>	<u>6/30/2018</u>
PFC Application No 7. AWP-09-07-C-00-SBA	\$ 331,607	\$ 331,607	\$ 331,607	\$ 319,086
	<u>\$ 331,607</u>	<u>\$ 331,607</u>	<u>\$ 331,607</u>	<u>\$ 319,086</u>

**CITY OF SANTA BARBARA
AIRPORT PASSENGER FACILITY CHARGE FUND**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2018**

Finding 2018-001 – Net Position Restatement

Beginning net position was restated to reclassify revenue received in July and August 2017 that should have been accrued as a receivable in the prior fiscal year. We recommend that management review subsequent receipts after the end of the fiscal year to determine if any amount received belong to the prior fiscal year and need to be accrued.

Management's Response and Corrective Action:

Beginning in fiscal year 2019 all PFC revenue received in July and August will be reconciled to the PFC activity month and accrued to the prior fiscal year as necessary.

**CITY OF SANTA BARBARA
AIRPORT PASSENGER FACILITY CHARGE FUND**

**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2017**

No matters reported.