



Santa Barbara County  
**Air Pollution Control District**  
Located in the State of California

Our Vision  Clean Air

# COMPREHENSIVE ANNUAL FINANCIAL REPORT



**FISCAL YEAR ENDED  
JUNE 30, 2012**

**LOUIS D. VAN MULLEM JR  
AIR POLLUTION CONTROL OFFICER**



### **MISSION STATEMENT**

**Our mission is to protect the people and the environment of Santa Barbara County from the effects of air pollution.**

#### **Front Cover:**

FACING NORTH FROM SANTA BARBARA SHORES COUNTY PARK (COURTESY OF DONALD KENDIG)

*Santa Barbara County  
Air Pollution Control District  
Located in the State of California*



**Comprehensive Annual Financial Report**  
Year Ended June 30, 2012

Prepared by:

The Fiscal Section of the Santa Barbara County Air Pollution Control District  
Kristina N. Costa, CPA, Supervising Accountant





Comprehensive Annual Financial Report  
Year Ended June 30, 2012

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Comprehensive Annual Financial Report  
Year Ended June 30, 2012

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## INTRODUCTORY SECTION

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*Letter of Transmittal*



May 16, 2013

To the Governing Board of the Santa Barbara County Air Pollution Control District, and  
the Citizens of Santa Barbara County

Please accept the Comprehensive Annual Financial Report (CAFR) of the Santa Barbara County Air Pollution Control District (APCD) for the fiscal year that ended June 30, 2012.

APCD management assumes full responsibility for the accuracy of the data, the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects, reported in a manner designed to present fairly the financial position and results of operations of the various funds and all disclosures necessary to enable the reader to gain an understanding of the APCD's financial activities.

Nasif, Hicks, Harris & Co., LLP, a firm of licensed certified public accountants, has issued an unqualified ("clean") opinion on the APCD's financial statements for the fiscal year ended June 30, 2012. The independent auditors' report is presented as the first component of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

A federally mandated "Single Audit" was not required for the fiscal year ended June 30, 2012 because expenditures of federal funds were below the \$500,000 threshold. Therefore, there will be no separately issued Single Audit report.

**Profile of the Santa Barbara County Air Pollution Control District**

The Santa Barbara County Air Pollution Control District (APCD) is an independent special district charged with improving the quality of the air, and protecting the people of Santa Barbara County from the effects of air pollution. In 1970, the California Legislature gave local governments the primary responsibility for controlling air pollution from most sources except motor vehicles. In response, the APCD was established on September 14, 1970 to adopt measures to control stationary sources of pollution, issue permits, monitor air quality, maintain an inventory of pollution sources, and other related activities.

*Santa Barbara County Air Pollution Control District Governing Board*

Policymaking and legislative authority is vested in the governing board (Board) of the APCD, which consists of the five members of the County Board of Supervisors and one representative (a mayor or city councilperson) from each of the eight cities in the county, totaling thirteen (13).

The Board is responsible, among other things, for adopting rules and regulations, adopting budgets, appointing committees, and appointing the Air Pollution Control Officer (APCO).

The following lists members of the governing board as of June 30, 2012.

**Santa Barbara County Board  
of Supervisors**

Salud Carbajal, First District

Janet Wolf, Second District

Doreen Farr, Third District

Joni Gray, Fourth District

Steve Lavagnino, Fifth District,  
Chair

**City of Buellton**

Mayor Holly Sierra

Alternate, Mayor Pro Tem Dave King

**City of Carpinteria**

Councilmember Kathleen Reddington,

Alternate, Mayor Al Clark

**City of Goleta**

Mayor Pro Tem Roger Aceves

Alternate, Mayor Edward Easton

**City of Guadalupe**

Mayor Lupe Alvarez

Alternate, Councilmember John Sabedra

**City of Lompoc**

Councilmember Cecilia Martner

Alternate, Councilmember Ashley Costa

**City of Santa Barbara**

Mayor Helene Schneider

Alternate, Councilmember Grant House

**City of Santa Maria**

Mayor Larry Lavagnino

Alternate, Mayor Pro Tem Alice Patino

**City of Solvang**

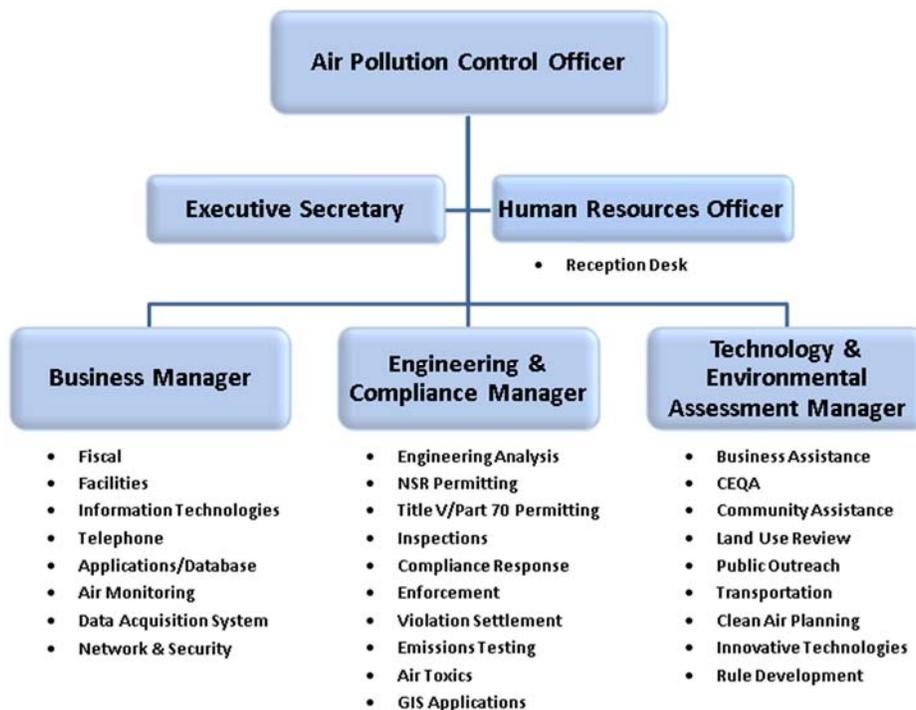
Mayor Jim Richardson, Vice Chair

Alternate, Councilmember Joan Jamieson

### Organization Chart

The APCD, with 50.25 full-time equivalent employees, has expertise in meteorology, engineering, chemistry, planning, environmental sciences, industrial field inspection, air monitoring, public outreach, data processing, accounting, human resources, and administration.

The following chart lists the Air Pollution Control Officer and the primary divisions as of June 30, 2012.



### What We Do

Our activities are guided by broad priorities, upon which narrower goals are developed, along with specific objectives (activities) to achieve those goals. The APCD priorities, goals, and objectives are as follows:

#### Priority 1: Protection Of Public Health Through Air Quality Improvement

Goal: Continue to implement programs which directly reduce emissions.

##### *Objectives:*

- Adopt new rules and regulations which cost-effectively reduce emissions.
- Emphasize alternatives to “command-and-control” regulations such as pollution prevention and incentives.
- Develop partnership initiatives to introduce innovative or other low polluting technology in areas not currently regulated or where technology recipients agree to go beyond regulatory requirements.
- Involve the community in pollution reduction efforts through grant programs, public education, and recognition of outstanding pollution reduction efforts.
- Maintain a fair and rigorous enforcement program.
- Ensure that all emission sources contribute to reducing emissions.
- Ensure that penalties act as a deterrent.

Priority 1: Protection Of Public Health Through Air Quality Improvement – (Continued)

Goal: Maintain a strong, science-based program.

*Objectives:*

- Place a high priority on staff training.
- Base decisions on data which has been documented and subjected to critical and open review.
- Maintain a sound emission inventory and air quality monitoring system.
- Maintain and update the Clean Air Plan using the latest data and control techniques.
- Use the best available data in developing programs, rules and permit analyses.
- Recognize differences between North and South County air quality.

Goal: Ensure that the APCD's mission and actions are aligned and routinely reviewed.

*Objectives:*

- Maintain and periodically update a strategic plan.
- Develop and adopt annual goals and track progress.

Goal: Ensure adequacy of resources.

*Objectives:*

- Continue to streamline and improve efficiency by taking advantage of technological advances and continuously reviewing systems and tasks.
- Broaden the APCD funding base by actively pursuing additional sources of revenue.

Priority 2: Community Involvement

Goal: Involve the community in air quality protection.

*Objectives:*

- Support a broad-based Community Advisory Council to provide input on rules and clean air plans and to foster open communication and a collaborative approach to air pollution control planning.
- Conduct workshops on new rules, plans, and the budget to obtain community input.
- Inform the public on air quality issues through a periodic newsletter, a Web Site, explanatory pamphlets and other educational matter.
- Keep the media informed.
- Participate in community events.

Priority 3: Continuously Improve Service

Goal: Maintain and improve relationships with all constituents.

*Objectives:*

- Keep the Board well informed.
- Provide opportunities for public input to decisions which affect them.
- Train staff in customer service and reward good service.
- Survey constituents regarding the quality of service received.
- Tap employee expertise, reward high performance, and push decisions down to the lowest level at which they can be competently made.

Engineering and Compliance Division staff: issues and enforces permits, and works with businesses to help them comply with permits; inspects businesses; responds to complaints from the public; implements the federal Title V program for large sources of air pollution; and implements the State's air toxics "Hot Spots" program for sources of toxic air pollution.

Technology and Environmental Assessment Division staff: monitors the air in our county; prepares clean air plans to show how we will meet clean-air standards; develops rules; implements clean air technologies and manages the clean air grant programs; reviews environmental documents for

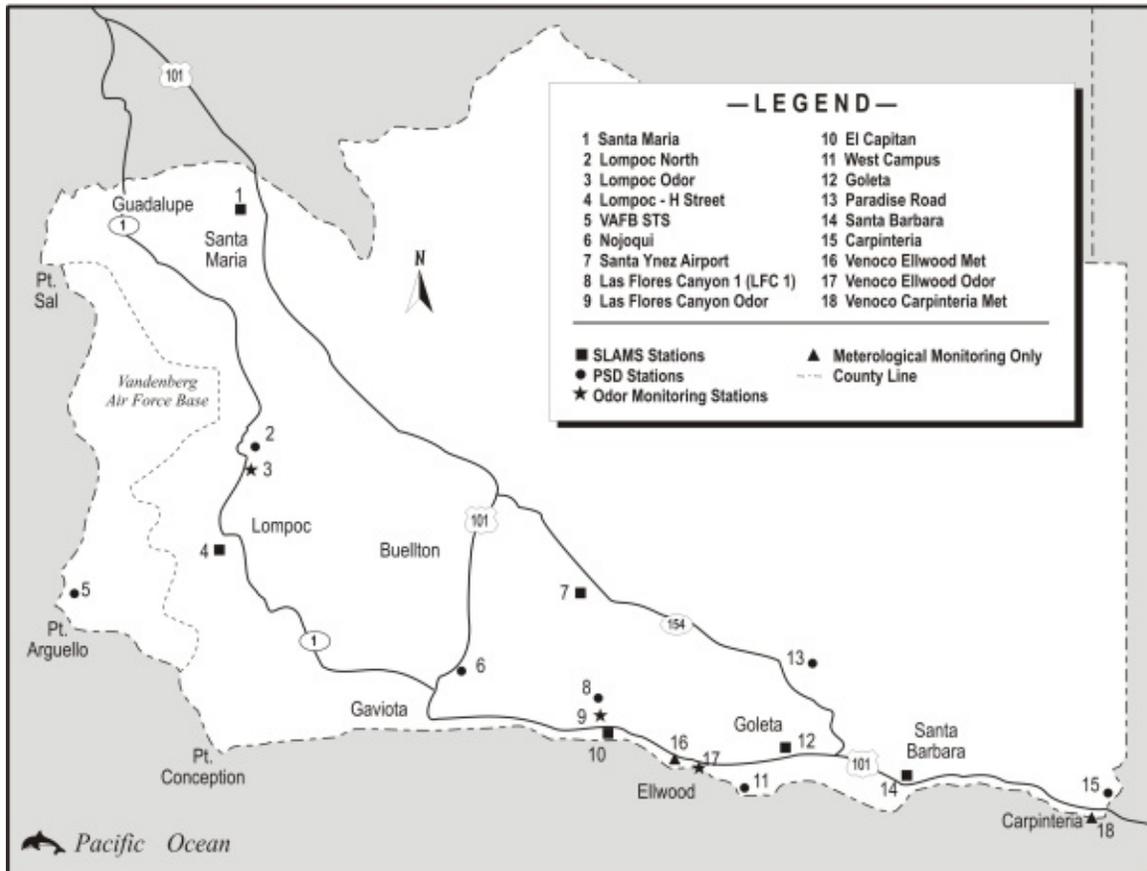
compliance with the California Environmental Quality Act (CEQA); and, educates and assists businesses and the public about our air and how we can keep it clean.

The state and federal governments have established ambient air quality standards for several air pollutants. The standards tell us how much of each pollutant can be in the air without causing harm to human health. The APCD is required to monitor air pollution levels to ensure these standards are met, and if they are not, to develop a strategy to reduce air pollution so they can be met. The map, below, shows the locations of air monitoring stations in Santa Barbara County.

*Our Air Quality*

Santa Barbara County's air quality has historically violated both the state and federal ozone standards. Ozone concentrations above these standards adversely affect public health, diminish the production and quality of many agricultural crops, reduce visibility, and damage native and ornamental vegetation. In 1970, when the APCD was formed, the air in Santa Barbara did not meet the federal one-hour ozone standard. For 33 years our efforts focused on attaining that standard, and on August 8, 2003, Santa Barbara County was officially designated an attainment area for the federal one-hour ozone standard. Santa Barbara County, as of June 30, 2011, is designated as attainment for the federal eight-hour ozone standard (\*0.075 parts per million) that replaced the previous federal one-hour standard. In addition, we attained the state one-hour ozone standard for the first time during 2004-2006. The California eight-hour ozone standard was implemented in June, 2006. The County violates the state eight-hour ozone standard and the state standards for PM<sub>10</sub> (particulate matter of 10 micrometers or less).

Map of Santa Barbara County's 18 Air Quality Monitoring Stations



## **Factors Affecting the Financial Condition**

### *Major Initiatives*

The APCO, in the District's adopted budget, outlines major programs (initiatives), accomplishments, and goals aligned with the Strategic Plan as adopted by the APCD Board in October 1997. This budget is available at [www.sbcapcd.org/apcd/budget.htm](http://www.sbcapcd.org/apcd/budget.htm).

Clean Air Planning – During FY 2011-12, staff effort was focused on updating our emissions inventory and beginning development of the 2013 Clean Air Plan triennial update for the state 8-hour ozone standard.

Marine Shipping – In order to maintain our hard-won accomplishment of attaining the federal ozone standard and to continue making progress toward the state eight-hour standard, we are continuing to explore solutions to reduce emissions from the number one source of ozone-forming pollution in our region: marine shipping. Ocean-going vessels passing along our coastline emit more oxides of nitrogen (NOx) than all of the vehicles on our roadways combined. Achieving additional NOx reductions from shipping is key to further progress towards attainment of the state ozone standard. We have created a Marine Shipping Solutions Group with representatives from various agencies to collaborate on solutions. Our primary effort this year has been promoting an initiative for funding a ship speed reduction program.

Regulation of Agriculture – The passage of Senate Bill 700 by the California Legislature requires certain large agricultural sources of air pollution to obtain permits to operate from local air districts. This requirement stems from Federal Clean Air Act provisions. The two large farms in Santa Barbara County affected by this legislation received permits from the APCD during the past fiscal year.

Additionally, the APCD worked closely with agricultural stakeholders and neighboring districts to create a registration and fee program to implement the requirements of diesel Air Toxic Control Measures (ATCM) on agricultural engines subject to regulation.

Diesel Engine Air Toxic Control Measures – Since 2004, the state of California has approved ATCM to reduce particle pollution from both stationary and portable diesel engines. By law, the requirements of these ATCMs are to be implemented and enforced by local air districts. The ATCMs apply to engines that provide prime power and to those that are used for emergency backup power, as well as to engines that are trailer-mounted and transported among job sites.

Retirement Costs – Retirement rates and their associated costs have been increasing steadily since FY 2003-04, well before the most recent economic downturn which was accompanied by uncharacteristic and unforeseen investment losses. The amount of money the APCD must pay each year into the Santa Barbara County Employees Retirement System (SBCERS), has doubled from roughly \$587,000 in fiscal year 2003-04 to \$1,183,734 for fiscal year 2011-12. The rates have increased from approximately 15% of covered payroll to approximately 30% during that period. Pursuant to APCD rules, fees have increased according to the Consumer Price Index (CPI), but the APCD has eliminated 10.5 positions in order to balance their budget.

In FY 2009-10, the Board adopted a prefunding plan for retiree health benefits, which is a more cost effective option than a pay as you go basis. The Board further adopted an earmarking and gradual transfer of a portion of discretionary designations (\$665,266 at June 30, 2012) to the 401(h) trust in order to eventually fully fund the retiree health benefits and eliminate the APCD's need to pay the benefits annually out of its operating budget.

### *Revenue Summary*

The APCD is financed primarily through fees paid by regulated businesses, motor vehicle registration fees, and federal and state grants.

The Strategic Plan forecasted that overall fee revenue would decrease substantially for several years, and indeed, sizable revenue reductions occurred shortly after they were predicted. The fee revenue outlook has stabilized and while it is predicted revenues will grow, it is predicted that they will grow less than the CPI. The lag behind the CPI is due to positive emission reductions from new, cleaner, emission sources replacing the periodic withdrawal of older, less efficient sources.

The APCD has not proposed an increase in fees on regulated sources since 1991 other than the annual adjustment for CPI change pursuant to its rules, which, for FY year 2011-12 was 3.1% resulting in no change in the fee base.

Detailed charts of fee and expenditure trends along with other demographic information can be found in the statistical section of this report.

### *Internal Accounting Control Policy*

APCD management is responsible for establishing, maintaining and evaluating the APCD's accounting system with an emphasis on the adequacy of an internal control structure. The internal accounting controls are designed to ensure that the assets of the government are protected against loss, theft or misuse; to ensure the reliability of adequate accounting data for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP); and, to provide reasonable, rather than absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the costs of control should not exceed the benefits likely to be derived from it and that the evaluation of costs and benefits require estimates and judgment be made by management.

The APCD's internal control evaluations occur within the above framework which ensures adequate safeguard of the APCD's assets and reasonable assurance of proper recording of financial transactions.

### *Budgetary Policy*

The APCD maintains budgetary controls through both signature authority and automated budget checking. The objective of these controls is to ensure compliance with the annual appropriated budget approved by the Board.

The accounting principles applied in developing budgetary expenditures match GAAP and the amounts reported on the financial statements.

As reflected in the statements and schedules included in the financial section of this report, the APCD continues to meet its responsibility for sound financial management.

### **Long-Term Financial Planning**

The highest hurdle to the APCD's long term financial success is surviving the increases in retirement costs over the next six fiscal years. Management anticipates that the CPI will increase steadily, possibly funding these increases.

### **Relevant Financial Policies**

#### *Cash Management*

The County of Santa Barbara provides treasury management services to the APCD. Cash resources of the APCD are invested as part of Santa Barbara County's Pooled Investment Portfolio. The County investment policy authorizes investments in United States treasury bills, bonds and notes, obligations issued by agencies of the United States Government, bankers acceptances, commercial paper, medium term notes, certificates of deposit, and the State's Local Agency Investment Fund. The fair market value of APCD's portfolio at June 30, 2012 is \$7,728,969 (see Note III of the basic financial statements).

#### *Risk Management*

APCD manages its risks of property and liability losses through commercial insurance. Commercial insurance coverages are obtained with assistance from a brokerage firm, Alliant Insurance Services, Inc. APCD maintains all risk property coverage with replacement cost valuation for pooled insurable values of approximately \$1,000,000,000 with a deductible of \$10,000. A detailed listing may be found under Note X of the basic financial statements.

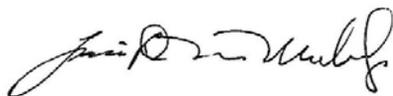
Loss control activities are managed by APCD's staff assigned to risk management activities. Staff performs loss prevention inspections and employee safety training to minimize potential human and property losses, and establish compliance with Cal/OSHA regulations.

### **Acknowledgments**

The preparation of this CAFR is the result of a coordinated effort by the entire APCD staff. We would like to acknowledge the special efforts of the Fiscal Section and our independent auditors, Nasif, Hicks, Harris & Co., LLP.

Recognition is also given to the Board for its leadership and support and to all employees of the APCD who continue to embrace innovation and improve operations to accomplish the APCD mission of protecting public health.

Respectfully Submitted,



Louis D. Van Mullem Jr.  
Air Pollution Control Officer



Robert Van Beveren  
Business Manager



Comprehensive Annual Financial Report  
Year Ended June 30, 2012

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## FINANCIAL SECTION

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### *Independent Auditors' Report*

### *Management's Discussion and Analysis (Unaudited)*

### *Basic Financial Statements*

#### **Fund and Government-wide Financial Statements**

*Balance Sheet and Statement of Net Assets*

*Reconciliation of the Governmental Funds Balance Sheet to the  
Government-wide Statement of Net Assets*

*Statement of Revenues, Expenditures, and Changes in Fund Balances and  
Statement of Activities*

*Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures, and Changes in Fund Balances to the Government-wide  
Statement of Activities*

#### **Notes to the Basic Financial Statements**

### *Required Supplementary Information (Unaudited)*

#### **General Fund – Budgetary Comparison Schedule (Budgetary Basis)**

#### **Notes to the General Fund – Budgetary Comparison Schedule (Budgetary Basis)**

#### **Santa Barbara County Employees' Retirement System – Schedule of Funding Progress**

#### **Notes to the Santa Barbara County Employees' Retirement System – Schedule of Funding Progress**

#### **Other Post-Employment Benefits (OPEB) Plan – Schedule of Funding Progress**

#### **Notes to the Other Post-Employment Benefits (OPEB) Plan – Schedule of Funding Progress**



William J. Nasif  
Steven J. Hicks  
Jeffery P. Harris  
Barbara Rogers Scollin  
Jody Dolan Holehouse  
Thomas W. Burk  
Marianne F. Bloom  
Robert Swayne Lyons  
Lawrence W. Brown  
Sarah E. Turner

April 19, 2013

Independent Auditors' Report

To the Board of Directors of the Santa Barbara County Air Pollution Control District:

We have audited the accompanying financial statements of the governmental activities and major fund of the Santa Barbara County Air Pollution Control District (APCD) as of and for the year ended June 30, 2012, which collectively comprise APCD's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of APCD's management. Our responsibility is to express an opinion on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of APCD, as of June 30, 2012, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated April 19, 2013, on our consideration of the APCD's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 to 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The introductory section and the statistical tables, where applicable, are presented for purposes of additional analysis and are not a required part of the basic financial statements of APCD. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on them.



Nasif, Hicks, Harris & Co., LLP

## **Santa Barbara County Air Pollution Control District Management's Discussion and Analysis (Unaudited)**

**As of June 30, 2012**

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The information in this section is not covered by the Independent Auditors' report, but is presented as required supplementary information for the benefit of the readers of the comprehensive annual financial report (CAFR).

As management of the Air Pollution Control District of the County of Santa Barbara, California (APCD), we offer readers of the APCD's financial statements this narrative overview and analysis of the financial activities of the APCD for the fiscal year (FY) ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the APCD's basic financial statements, which immediately follow this section.

### **Financial Highlights**

#### *Government-wide Financial Analysis*

The assets of the APCD exceeded its liabilities at the close of the most recent fiscal year by \$7,541,211 (*net assets*):

- \$330,714 represents the APCD's investment in capital assets, less any related outstanding debt used to acquire those assets (*invested in capital assets, net of related debt*).
- \$7,210,497 represents (*unrestricted*) net assets, which may be used to finance the APCD's day-to-day operations without constraints established by legal requirements.

The APCD's total net assets increased by \$195,483 (or 2.7%) over the prior year:

- A \$24,862 increase in net assets invested in capital assets, net of related debt, represents capital purchases less depreciation plus the retirement of any related long-term debt. See further discussion of capital assets and long-term debt on page 15.
- A \$170,621 increase in unrestricted net assets is the change in resources available to fund APCD programs and obligations. This change is further discussed on page 16.

#### *Financial Analysis of the APCD's General Fund*

As of the close of the fiscal year, the APCD's governmental funds reported combined fund balances of \$7,365,661. This amount represents entirely the amount of the General Fund and an increase of 1.5%, or \$105,470 from the prior year. Of that amount, approximately 99.8% or \$7,351,175 is available for spending, but bound by various levels of constraints that control the purposes for which specific amounts can be spent.

#### *Capital Assets and Debt Administration*

The APCD's investment in capital assets (net of accumulated depreciation) increased \$24,862 (or 8.1%) to \$330,714. During the fiscal year, the APCD purchased seven pieces of equipment and two vehicles, and disposed of two vehicles. The APCD recorded depreciation of \$128,105 against its assets. No long term debt currently exists related to capital assets.

The APCD's debt, or better described as liability for employee compensated absences, increased \$4,713 (or 1.4%) from \$348,012 to \$352,725 and is all due within one year.

## **Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the APCD's basic financial statements. The APCD's basic financial statements have two components:

- 1) Combined Government-wide and Fund Financial Statements, with GASB 34 adjustments
- 2) Notes to the Basic Financial Statements.

### *Government-wide Financial Statements*

The government-wide financial statements are designed to provide a broad overview of the APCD's finances, in a manner similar to commercial enterprises or a private-sector business.

The *Statement of Net Assets* reports all assets held and liabilities owed by the APCD on a full accrual basis. The difference between the two is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the APCD is improving or deteriorating.

The *Statement of Activities* reports the most recent fiscal year changes to the APCD's net assets, also on a full accrual basis. 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.

The focus of the Statement of Activities is on the cost of various work program activities performed by the APCD. As a single purpose entity the statement begins, and only contains, a single column that identifies the activities of the APCD and can be called general revenues and expenditures. Revenues are provided before the costs that are then netted against them. The difference between the expenses and the revenues represents the draw from, or contribution to net assets.

The APCD's government-wide financial statements are presented on pages 23 and 25, and combined with the fund financial statements.

### *Fund Financial Statements*

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the APCD rather than the APCD as a whole. A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. As a single purpose entity, the APCD only utilizes governmental funds to account for its activities.

#### *Governmental Funds*

Governmental funds account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental 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 is useful in evaluating the APCD's near-term financing requirements. The governmental funds' focus is narrower than that of the government-wide financial statements. To understand the long-term impact of the APCD's near-term financing decisions, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. The reconciliations of the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances to the government-wide financial statements facilitate the comparison between *governmental funds* and *governmental activities*.

Pages 23 and 25 of this report display the governmental funds financial statements.

The reconciliation between the *total fund balances* can be found on page 24 and the reconciliation of the *total change in fund balances* for all governmental funds to the *change in net assets* can be found on page 26.

The APCD adopts an annual appropriated budget for its operating fund. The budget and actual comparison statement provided for the General Fund, found on page 45 under the *required supplementary information* section, demonstrates performance against the budget.

*Notes to the Basic Financial Statements*

The notes to the basic financial statements, starting on page 27, provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the APCD's financial position. At the close of the most recent fiscal year, the APCD's total assets of \$8,617,043 exceeded *current and other liabilities* of \$1,075,832 by \$7,541,211.

A summary of net assets is as follows:

Summary of Net Assets

	Governmental Activities		Changes	
	June 30, 2012	June 30, 2011	Dollar	Percent
Current and other assets	\$ 8,286,329	\$ 8,131,754	\$ 154,575	1.9%
Capital assets	330,714	305,852	24,862	8.1%
<b>Total assets</b>	<b>8,617,043</b>	<b>8,437,606</b>	<b>179,437</b>	<b>2.1%</b>
Current and other liabilities	1,075,832	1,091,878	(16,046)	-1.5%
<b>Total liabilities</b>	<b>1,075,832</b>	<b>1,091,878</b>	<b>(16,046)</b>	<b>-1.5%</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	330,714	305,852	24,862	8.1%
Unrestricted	7,210,497	7,039,876	170,621	2.4%
<b>Total net assets</b>	<b>\$ 7,541,211</b>	<b>\$ 7,345,728</b>	<b>\$ 195,483</b>	<b>2.7%</b>

*Analysis of Net Assets*

The APCD's total net assets increased by \$195,483, or 2.7%, during the fiscal year. As described below, the APCD experienced increases in both categories of net assets.

The components of total net assets are as follows:

**Invested in Capital Assets, Net of Related Debt**

Invested in capital assets (e.g. furniture, vehicles, machinery, and equipment), less outstanding debt used to acquire those assets, is a small portion (4.4%) of the APCD's net assets. (No debt is outstanding.) The APCD uses these capital assets in carrying out its mission of protecting public health. Consequently, these assets are not available for future spending. Although the APCD's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources since the capital assets themselves cannot be used to liquidate such liabilities.

The amount invested in capital assets, net of related debt was \$330,714 at the fiscal year's end, and equaled the APCD's investment in capital assets (net of accumulated depreciation). The

APCD's investment in capital assets includes large furniture purchases for the two offices, vehicles, and equipment for air monitoring, testing, and data collection.

The increase in net assets that are invested in capital assets, net of related debt, of \$24,862 represents capital acquisitions, less current year depreciation and dispositions.

Unrestricted Net Assets

The largest portion of the APCD's net assets (95.6%) is unrestricted. Some of those revenue sources, such as DMV fees, restrict expenditures for specific purposes, but do not require that they be returned if unspent in the current year. They may be used to meet the APCD's ongoing programs associated with them. Other revenues are discretionary and may be used for any ongoing obligations in carrying out day-to-day operations.

Unrestricted net assets increased \$170,621, or 2.4% from the previous year from \$7,039,876 to \$7,210,497. Approximately 39.3% of it is for ITG, Carl Moyer, DMV \$2, DMV \$4, monitoring, and data acquisition system programs, with the remainder available for more general APCD purposes.

The following charts provide the change in Net Assets from the prior year and Net Assets trend:



Unrestricted net assets have increased over the last 7 years from \$5,808,368 to \$7,210,497 or 24.2% primarily due to unanticipated penalty revenue and salary savings from unanticipated employee turnover. Invested in capital assets, net of related debt decreased overall from \$513,721 to \$330,714, or 35.6%. Large furniture purchases, as a percentage of the APCD's total capital, for the two offices, are continuing to depreciate and eclipse the activity of smaller assets with shorter useful lives.

*Analysis of Governmental Activities*

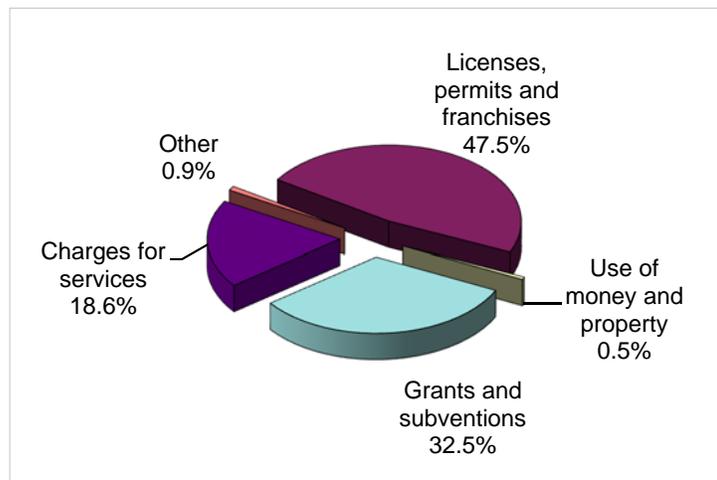
The Statement of Activities for APCD presents its governmental activities, its sole purpose. Governmental functions of the APCD are predominantly supported by fees, grants, state subvention, late payment penalties, and penalty settlements. The primary governmental activities of the APCD include the following: advance clean air technology, ensure compliance with clean air rules, customer service, develop programs to achieve clean air, develop rules to achieve clean air, monitoring air quality, permit issuance review, and policy support, as well as special programs, whose funding have specific mandates.

The following table shows the revenue, expenses, and changes in net assets:

	Governmental Activities		Changes	
	June 30, 2012	June 30, 2011	Dollar	Percent
<b>Revenues:</b>				
Licenses, permits, and franchises	\$ 4,162,559	\$ 3,226,591	\$ 935,968	29.0%
Use of money and property	47,067	38,344	8,723	22.7%
Grants and subventions	2,848,840	2,868,791	(19,951)	-0.7%
Charges for services	1,629,645	1,858,119	(228,474)	-12.3%
Other	78,886	99,529	(20,643)	-20.7%
<b>Total Revenues</b>	<b>8,766,997</b>	<b>8,091,374</b>	<b>675,623</b>	<b>8.3%</b>
<b>Expenses:</b>				
Air pollution control services:				
Salaries and benefits	5,552,299	5,546,996	5,303	0.1%
Services and supplies	2,742,990	2,652,335	90,655	3.4%
Other Expenses	148,120	165,563	(17,443)	-10.5%
Depreciation	128,105	122,471	5,634	4.6%
<b>Total Expenses</b>	<b>8,571,514</b>	<b>8,487,365</b>	<b>84,149</b>	<b>1.0%</b>
<b>Excess (deficiency) of revenues over expenses</b>	<b>195,483</b>	<b>(395,991)</b>	<b>591,474</b>	<b>-149.4%</b>
<b>Net Assets:</b>				
Beginning of year	7,345,728	7,741,719	(395,991)	-5.1%
End of year	\$ 7,541,211	\$ 7,345,728	\$ 195,483	2.7%

Revenues

Revenues for the APCD's governmental activities had an overall increase of 8.3% from the prior year. All of the revenues of the APCD were for air pollution control services and total \$8,766,997 for the year ending June 30, 2012 and \$8,091,374 for the year ending June 30, 2011. The chart below provides APCD revenues by object level as of June 30, 2012.



For the year ending June 30, 2012, 84.2% or \$7,383,336 of APCD revenues are fee based, and a chart and table on page 54 of the Statistical Section provide a breakdown of those fees. It is important to note that DMV automobile registration fees of \$2,029,342 are included in the grants and subventions object level, and all of the other fees are included in either the licenses, permits, and franchises; or, charges for services object level of the Statement of Activities. The

remaining revenue of \$1,383,661, which is not fee based, includes penalty settlements, State subvention, Federal EPA grants, use of money and property (interest), and revenue from other governmental agencies.

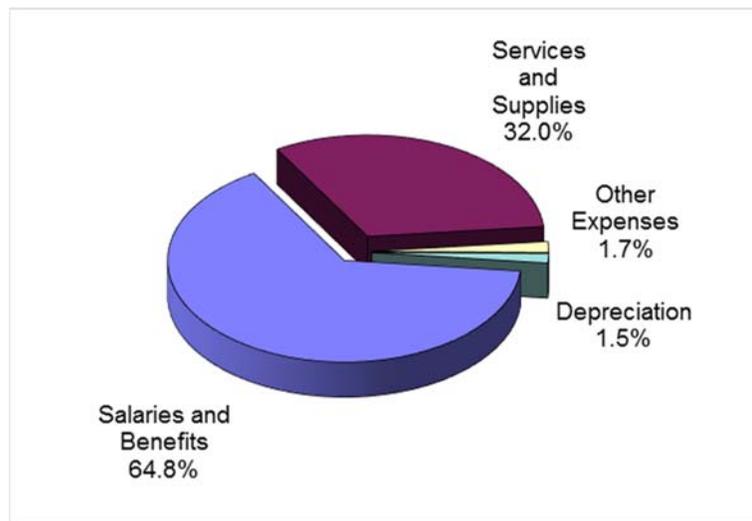
Licenses, permits, and franchises increased \$935,968 (29.0%) over the previous year, primarily due to a \$641,521 increase in re-evaluation fees; a \$63,977 increase in annual emission fees; a \$147,994 increase in notice of violation fees; and \$27,665 increase in Motor Vehicle Fueling Facility (MVFF) fees.

Use of Money and Property increased \$8,723 (22.7%) due to receiving slightly more interest from having a larger cash balance in the bank.

Charges for services decreased \$228,474 (12.3%) primarily due to a decrease in reimbursable services of \$243,047, with an offsetting increase from air quality attainment planning of \$13,612.

Expenses

All of the expenses of the APCD were for air pollution control services and total \$8,571,514 for the year ending June 30, 2012 and \$8,487,365 for the year ending June 30, 2011. The chart below provides APCD expenses by object level as of June 30, 2012.



Salaries and benefits comprise the largest portion of the APCD's expenses at 64.8% or \$5,552,299. Salaries and benefits increased \$5,303 (0.1%) over the prior year primarily due merit increases.

Services and supplies comprise the second largest portion of the APCD's expenses at 32.0% or \$2,742,990. Services and supplies increased \$90,655 (3.4%) over the prior year.

**Financial Analysis of the APCD's Funds**

The APCD uses fund accounting to demonstrate compliance with finance related legal requirements.

*Governmental Funds*

The focus of the APCD's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the APCD's financing requirements. In particular, the governmental fund balance is a useful measure of a government's resources available for spending at the end of the fiscal year.

As of the end of the fiscal year, the APCD's governmental funds reported an ending fund balance of \$7,365,661, an increase of \$105,470 (or 1.5%) in comparison with the prior year.

*General Fund*

The General Fund is the operating fund of the APCD, and as a single purpose entity, is the only fund type reported. One measure of the General Fund's liquidity is the comparison of spendable fund balance to total fund balance, which is 99.8%. One measure of the General Fund's financial health is the comparison of spendable fund balance to operating expenditures, which is 85.6%. Spendable General Fund balance may also serve as a useful measure of the APCD's net resources available for spending at the end of the fiscal year.

The components of total fund balance are as follows:

*Nonspendable*

The \$14,486, acquired through employee medical spending forfeitures, is in the form of long term employee loans not to exceed \$2,500 per loan under the APCD's employee computer automation program, assisting employees in acquiring and sharpening computer literacy skills by providing interest free loans to acquire personal computer equipment and software similar to what employees may be asked to use for APCD business.

*Restricted*

Of the \$1,263,479, \$705,215 is restricted to the DMV \$2 program, \$543,813 restricted to the Carl Moyer program, both as part of legislation with very restrictive spending limitations. \$1,972 is committed to the DMV \$4 program as part of legislation with broader spending parameters. Lastly, \$12,479 is in the form of unrealized gains in the market value of the securities the County Treasurer holds on behalf of the APCD (see Note III of the basic financial statements). GASB Statement No. 31 requires that the APCD report unrealized market gains as an asset that cannot be spent.

*Committed*

Of the \$6,087,696, \$550 is in the form of imprest, or petty, cash and is kept on hand, as opposed to in the bank. \$277,671 is committed to ITG projects as part of mitigation agreements with broad spending parameters. \$371,860 is committed to monitoring activities, \$1,040,691 to data acquisition system activities, \$1,265,107 to replace furniture, equipment, and vehicles. \$1,500,000 is a strategic reserve to match 15% of revenues in an effort to provide in case of large emergencies or contingencies. \$623,161 is committed to the Re-evaluation Cycle revenue stabilization policy in an effort to provide fiscal stability for re-evaluation revenue that fluctuates in three year cycles. \$343,390 is committed to operational activities for fiscal prudence in managing the budgetary condition of the APCD, and \$665,266 to fund the APCD's retiree health subsidy. The retiree health subsidy will be gradually transferred over to the Santa Barbara County Employees' Retirement System (SBCERS) at a rate not to exceed 25% of retirement contributions, with the intent of fully funding the promised benefit in four to five years.

A detailed schedule of fund balances can be found in Note II of the notes of the basic financial statements.

## **Capital Assets and Debt Administration**

### *Capital Assets*

The APCD's investment in capital assets was \$330,714 (net of accumulated depreciation of \$1,700,181) at June 30, 2012 representing an increase of \$24,862 (or 8.1%) over the prior year. This investment in capital assets includes furniture, laboratory equipment, air monitoring stations, computer and office equipment, and APCD vehicles, which are mostly hybrid vehicles.

The additions to capital assets reflect the purchase of seven different analyzers and two Ford Fusions.

The deletions of capital assets reflect the disposal of two Toyota Prius'. Whenever possible, the APCD donates old equipment to other districts, and old computers to schools. Vehicles are usually auctioned off by a third party vendor or donated to another government agency.

Additional information on the capital assets can be found in Note V of the notes to the basic financial statements.

### *Debt*

The APCD's debt outstanding was \$352,725 as of June 30, 2012, representing an increase of \$4,713 (or 1.4%) all of which is considered current, due within one year, and represents employee compensated absences (see Note VIII).

## **General Fund Budgetary Highlights**

The fiscal year 2011-12 amended budget compared to the adopted budget reflects a decrease of \$3,053 in the total budgeted revenues and no change in total budgeted expenditures.

### *Changes from Original to Final Budgeted Amounts*

The Auditor-Controller decreased budgeted use of money and property by \$3,053 for the fair value of assets held in the County Treasury, which also decreased the total budgeted revenues by \$3,053.

A use of prior year fund balance of originally \$1,432,267 was budgeted for fiscal year 2011-12 and amended to a use of \$1,435,320, and by the end of the fiscal year, \$105,470 was actually added to the fund balance. This resulted in a positive variance of \$1,540,790 between the final adopted budget and actual amount, and a positive variance of \$1,537,737 between originally adopted budget and actual amount. The following factors contributed to this variance.

### *Variances with Final Budgeted Amounts*

There were no variances out of budgetary or legal compliance.

### Revenues

Licenses, Permits, and Franchises – unanticipated evaluation fees of \$58,385, re-evaluation fees of \$176,550, annual fees of \$51,282, penalty settlements of \$258,632, source test fees of \$20,885 and application fees of \$19,140 above budget contributed to the excess of \$588,503. Offsetting were asbestos fees at \$16,112 and air toxic fees at \$724 below budget.

Use of Money and Property – with the ultra-low interest rate policy of the U.S. Federal Reserve ("the Fed"), interest was less than budgeted by \$79,880.

Grants and Subvention – DMV \$2 and \$4 revenue was \$45,658 less than budgeted, however that was offset by our PERP State grant \$8,123 and State Air Resources Board grant \$3,821 coming in higher than anticipated, for a total deficiency of \$47,599.

Charges for Services – Reimbursable district services of \$87,241 and the air quality attainment program \$7,278 contributed to the excess of \$93,507.

Expenditures

Salaries and Benefits – were \$83,496 lower than budgeted as a result of salary savings from a few employees being out on leave for extended amounts of time and health insurance premiums were also less than budgeted by \$27,955 due to switching health insurance carriers.

Services and Supplies – were \$851,177 lower than originally budgeted primarily due to less professional and special services that were needed, less travel and training by staff and many other immaterial variances.

Other Expenses – were \$15,075 lower than budgeted due to savings in our vehicle fleet costs and less contributions to other agencies.

Capital Outlay – was \$31,533 lower than budgeted primarily due to equipment costing less than anticipated.

**Economic Factors and Next Year's Budget and Rates**

The following known factors were considered in preparing the APCD's budget for FY 2012-13.

Revenues

- The FY 2012-13 budget contains a 3.1% increase in fee revenues pursuant to APCD Rule 210. The APCD has not proposed any increase in the Rule 210 fee schedule for regulated sources other than the annual adjustment for the Consumer Price Index.
- The trough in the three year re-evaluation cycle is behind us and we are entering the mid-year in FY 2012-13. Compared to FY 2011-12 fees of \$1,027,164, FY 2012-13 is adopted at \$868,795, or a \$158,369 decrease.
- Additional reductions are anticipated reducing evaluation fee revenues \$18,149, asbestos fees are anticipated to be \$21,630 less than in FY 2011-12 and Carl Moyer grant revenue decreased \$16,157.
- Interest earnings are anticipated to continue to decrease due to all time market low interest rates, the budget decreased \$55,000 from FY 2011-12 to \$75,000.
- Reimbursable charges are increasing by \$23,249 due to an increase in reimbursable workload.
- The Federal grant from EPA is anticipated to be \$475,000 which is \$25,000 lower than FY 2011-12. State funding is stable, as well as anticipated vehicle registrations.

Expenditures

- Salaries and benefits decreased primarily due to a reduction in full time equivalents (FTE) from 50.25 to 48.0. Retirement rates are increasing 4.3% at a cost of approximately \$55,000.
- Services and supplies decreased primarily due to an overall District reduction of Services and supplies, a cost of \$298,438.
- Capital outlay will decrease to \$90,400 due to pushing back the purchases of vehicles to future budget years, however we continue to update our analyzers and monitoring equipment.

As in past years, the APCD will continue its efforts to make progress toward attaining and maintaining the Federal and State clean air mandates in the most cost-effective manner possible.

**Requests for Information**

This financial report is designed to provide a general overview of the APCD's finances. Questions concerning any of the information provided in this report should be addressed to the Business Manager, 260 N. San Antonio Road, Suite A, Santa Barbara, CA 93110. This report may be downloaded from the web at [www.sbcapcd.org/apcd/cafr.htm](http://www.sbcapcd.org/apcd/cafr.htm).

**Santa Barbara County Air Pollution Control District  
Balance Sheet and Statement of Net Assets**

**As of June 30, 2012**

	General Fund	Adjustments (1)	Statement of Net Assets
<b>Assets</b>			
Cash (note III)	\$ 7,237,769	\$ --	\$ 7,237,769
Receivables:			
Accounts, net	337,137	--	337,137
Interest	13,538	--	13,538
Employee	8,574	--	8,574
Current assets	7,597,018	--	7,597,018
OPEB assets	--	197,561	197,561
Restricted cash and investments (note IV)	491,750	--	491,750
Capital assets, net of accumulated depreciation (note V)	--	330,714	330,714
<b>Total assets</b>	<b>\$ 8,088,768</b>	<b>\$ 528,275</b>	<b>\$ 8,617,043</b>
<b>Liabilities</b>			
Accounts payable	\$ 10,524	\$ --	\$ 10,524
Salaries and benefits payable	220,833	--	220,833
Employee compensated absences (note VIII)	--	352,725	352,725
Current liabilities	231,357	352,725	584,082
Permit holders payable (note IV)	491,750	--	491,750
<b>Total liabilities</b>	<b>723,107</b>	<b>352,725</b>	<b>1,075,832</b>
<b>Fund balances/Net assets:</b>			
Fund balances (note II):			
Nonspendable	14,486	(14,486)	
Restricted	1,263,479	(1,263,479)	
Committed	6,087,696	(6,087,696)	--
Total fund balances	7,365,661	(7,365,661)	--
<b>Total liabilities and fund balances</b>	<b>\$ 8,088,768</b>		
Net assets:			
Invested in capital assets, net of related debt		330,714	330,714
Unrestricted		7,210,497	7,210,497
<b>Total net assets</b>		<b>\$ 7,541,211</b>	<b>\$ 7,541,211</b>

(1) Please see the Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets schedule on the following page.

See accompanying notes to the basic financial statements.

**Santa Barbara County Air Pollution Control District  
Reconciliation of the Governmental Funds Balance Sheet to the  
Government-wide Statement of Net Assets**

**As of June 30, 2012**

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Fund Balances - Total Governmental Funds (General Fund) \$ 7,365,661

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

The net accrued OPEB assets are for obligations that do not  
require the use of current financial resources and therefore  
are not reported as assets in the governmental funds. 197,561

Capital assets, net of accumulated depreciation, have not been  
included as financial resources in governmental funds activity.  
These capital assets are reported as an adjustment to arrive  
at the Statement of Net Assets as capital assets of APCD  
as a whole.

Capital assets	\$ 2,030,895	
Accumulated depreciation	(1,700,181)	
	<u>\$ 330,714</u>	330,714

All liabilities, both current and long-term, are reported in the  
Statement of Net Assets.

Compensated absences	<u>(352,725)</u>
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Net Assets of Governmental Activities \$ 7,541,211

See accompanying notes to the basic financial statements.

**Santa Barbara County Air Pollution Control District  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
and Statement of Activities**

**For the Fiscal Year Ended June 30, 2012**

	General Fund	Adjustments (1)	Statement of Activities
<b>Revenues:</b>			
Licenses, permits, and franchises	\$ 4,162,559	\$ --	\$ 4,162,559
Use of money and property	47,067	--	47,067
Grants and subventions	2,848,840	--	2,848,840
Charges for services	1,629,645	--	1,629,645
Other	9,022	69,864	78,886
<b>Total revenues</b>	<b>8,697,133</b>	<b>69,864</b>	<b>8,766,997</b>
<b>Expenditures/expenses:</b>			
Air pollution control services:			
Salaries and benefits	5,547,586	4,713	5,552,299
Services and supplies	2,742,990	--	2,742,990
Other Expenses	148,120	--	148,120
Depreciation	--	128,105	128,105
Capital outlay	152,967	(152,967)	--
<b>Total expenditures/expenses</b>	<b>8,591,663</b>	<b>(20,149)</b>	<b>8,571,514</b>
Excess (deficiency) of revenues over expenditures/expenses	105,470	90,013	195,483
<b>Fund balances/net assets:</b>			
Beginning of year	7,260,191	85,537	7,345,728
<b>End of year</b>	<b>\$ 7,365,661</b>	<b>\$ 175,550</b>	<b>\$ 7,541,211</b>

- (1) Please see the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities schedule on the following page.

See accompanying notes to the basic financial statements.



**Santa Barbara County Air Pollution Control District  
Notes to the Basic Financial Statements**

**As of June 30, 2012**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. The Reporting Entity**

The Air Pollution Control District (APCD) of the County of Santa Barbara was formed by Santa Barbara County Board of Supervisor Resolution 70-581 in 1970. The APCD Board of Directors (Board) includes the five members of the County Board of Supervisors and one representative from each of the County's eight cities. The Board is the governing body of the APCD and is responsible for its legislative and executive control. The APCD was established pursuant to Section 40000 et seq. of the State of California Health and Safety Code. The APCD acts as a legal entity, separate and distinct from the County of Santa Barbara. As required by accounting principles generally accepted in the United States of America (GAAP), the accompanying basic financial statements present the activities of the APCD for which the APCD is considered to be financially accountable.

**B. 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.

Governmental funds 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. The APCD in general considers revenues available if they are collected within 60 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when payment is due.

For the governmental funds financial statements, the APCD considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, licenses, permits, franchises, interest (use of money and property), charges for services, and other miscellaneous revenue are all considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period. Expenditure-driven grant revenue is recognized when the qualifying expenditures have been incurred and all other eligibility requirements have been met. Grant revenue is recorded at the time of receipt or earlier, if the susceptible-to-accrual criteria are met.

The accounts of the APCD 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.

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

### **B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued**

The minimum number of funds is maintained consistent with legal and managerial requirements. The APCD is a special-purpose government engaged in a single governmental program, and is presented accordingly in the basic financial statements.

The APCD reports the following major governmental funds:

The *General Fund* is the APCD's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the APCD except those required to be accounted for in other specialized funds.

The basic financial statements of the APCD are composed of the following.

- Combined Government-wide and Governmental Fund financial statements.
- Reconciliations between the Government-wide and Governmental Fund financial statements.
- Notes to the basic financial statements.

### **C. Assets, Liabilities, and Net Assets or Equity**

#### **1. Cash and Cash Equivalents**

The APCD's cash and cash equivalents are considered to be cash on hand, demand deposits and investments held by the County Treasurer in a cash management investment pool (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 quarterly 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 (LAIF Board) has oversight responsibility for LAIF. The LAIF Board consists of five members as designated by State Statute (see Note III).

#### **2. Restricted Cash and Investments**

Restricted cash and investments reflect cash received from APCD permit holders. These deposits are held until completion of permit holders' projects (see Note IV).

#### **3. Accounts Receivables and Payables**

The APCD only accrues revenues quarterly and at fiscal year-end. Included are revenues from permits, of which a portion may not be collectible; as such the APCD has an allowance of \$4,000 for uncollectible accounts and accounts receivable is

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C. Assets, Liabilities, and Net Assets or Equity - Continued**

**3. Accounts Receivables and Payables - Continued**

reported at net. All accounts receivable are expected to be collected within one year. Interest receivable represents the last quarter of interest that has been earned, but not distributed as of the close of the fiscal year.

Employee receivables represent loans to assist employees in acquiring personal computer equipment and software similar to what employees may be asked to use for APCD business. Funding for these loans is provided from employee medical spending account forfeitures.

The APCD only accrues expenditures at fiscal year-end. Accrued expenses and salaries and benefits payable are for goods and services received during the fiscal year, but will not be paid until after June 30, 2012. In addition the district has a payable for deposits by permit holders (see Note IV).

**4. Capital Assets and Depreciation**

Equipment and furniture are valued at cost unless obtained by donation in which case the assets are recorded at the appraised value at the date of receipt. The capitalization thresholds are \$5,000 for equipment and \$25,000 for buildings and improvements (see Note V).

Repair and maintenance costs are charged to current expenditures as incurred. Equipment disposed of or no longer required for its existing use is removed from the records at actual or estimated cost.

Depreciation is charged as an expense against operations, and accumulated depreciation is reported on the respective balance sheet. Property, plant, and equipment of the APCD are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Equipment:	
Automobiles and light trucks	5 to 10
General machinery and office equipment	3 to 7
Furniture	7 to 10

**5. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

**6. Employee Compensated Absences**

Regular full-time employees accumulate vacation time, sick leave, compensatory time, and other leave time. Certain restrictions apply with respect to the accumulation of leave time and its payment at termination. All vacation, sick leave, compensatory time, and other leave time are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of an employee retirement.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C. Assets, Liabilities, and Net Assets or Equity - Continued**

**7. Fund Equity (Fund Balances)**

Portions of fund balances are nonspendable and are therefore, not available for appropriation. Spendable fund balances in the General Fund are classified based on the relative strength of the constraints that control the purposes for which the amounts can be spent.

**8. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**II. FUND BALANCES**

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

*Nonspendable:* amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted:* amounts that are constrained for a specific purpose through restrictions of external parties (i.e. creditors, grantors, contributors, or laws or regulations of other governments), or by constitutional provision or enabling legislation.

*Committed:* amounts that can be used only for specific purposes determined by a formal action of the APCD Board. The APCD Board is the highest level of decision-making authority for the APCD. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the APCD Board.

*Assigned:* amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes, as expressed by (a) the Board itself or (b) a body (e.g. budget or finance committee) or the APCO to which the Board has delegated the authority to assign the amounts.

*Unassigned:* all other spendable amounts.

As of June 30, 2012, fund balances are composed of the following:

<b>Fund balances:</b>	
<b>Nonspendable:</b>	
Employee loans - computer automation program	\$ 14,486
<b>Restricted for:</b>	
DMV \$2 Grants	705,215
Carl Moyer Grants	543,813
DMV \$4 Programs	1,972
Unrealized Gains (GASB 31 FMV Adjustment)	12,479
<b>Committed to:</b>	
Imprest cash	550
ITG Projects	277,671
Capital Replacement	1,265,107
Data Acquisition System	1,040,691
Strategic Reserve	1,500,000
Retiree Health Subsidy	665,266
Monitoring	371,860
Reevaluation Cycle	623,161
Operational Activities	343,390
Total fund balances	<u>\$ 7,365,661</u>

## **II. FUND BALANCES - Continued**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the APCD considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the APCD considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the APCD Board has provided otherwise in its commitment or assignment actions.

## **III. CASH AND INVESTMENTS**

Cash and investments include the cash balances of the APCD's General Fund and Trust Fund, which are consolidated and invested by the County Treasurer (Treasurer) in a cash management investment pool (pool), for the purpose of increasing interest earnings through investment activities. 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. Interest earned on pooled investments is apportioned quarterly to APCD's participating funds based upon each fund's average daily deposit balance.

Investments held by the Treasurer are stated at fair value. The fair value of investments is established quarterly based on quoted market prices received from the securities custodian. Fair value of investments held fluctuates with interest rates. The fair value of the APCD's position in the pool is the same as the value of the pool shares. The value of APCD's equity withdrawn is based on the book value of the APCD's percentage participation at the date of such withdrawal.

The Treasurer participates in the State of California Local Agency Investment Fund (LAIF). Investments in the LAIF are governed by State statutes and overseen by a five member Local Investment Advisory Board.

The APCD has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2012 to support the value of shares in the pool.

Additional information and separately issued financial statements of the County of Santa Barbara can be obtained from the Santa Barbara County Auditor-Controller, PO Box 39, Santa Barbara, CA 93102-0039.

### **A. Custodial Credit Risk Related to Deposits**

The custodial credit risk for deposits is the risk that the APCD will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. This risk is mitigated in that the APCD's bank deposits are insured by the Federal Depository Insurance Corporation (FDIC). Effective December 31, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) fully guaranteed all funds in noninterest-bearing transactions deposit accounts held at FDIC-insured depository institutions. As the APCD deposits are fully insured under DFA, collateralization under Government Code Section 53652 is waived.

### III. CASH AND INVESTMENTS - Continued

#### B. Investments

The APCD is a voluntary participant in the Treasurer's investment pool that is regulated by the California Government Code under oversight of the Treasurer of the State of California. The fair value of the APCD's investments in this pool is reported in the accompanying financial statements, and this note, at amounts based upon the APCD's pro-rata share of the fair value provided by the Treasurer for the entire investment pool.

Pursuant to Section 53646 of the State of California Government Code the Treasurer prepares an *Investment Policy Statement* (Policy) annually, presents it to the Treasury Oversight Committee for review and to the Board of Supervisors for approval. After approval, the policy is forwarded to the California Debt and Investment Advisory Commission.

The policy provides the basis for the management of a prudent, conservative investment program. Public funds are invested to provide the maximum security of principal with secondary emphasis on achieving the highest return, while meeting daily cash flow needs. All investments are made in accordance with the California Government Code and, in general, the Treasurer's policy is more restrictive than State law. Types of securities in which the Treasurer may invest include U.S. Treasury and U.S. Government agency securities; State and/or local agency bonds, notes, warrants or certificates of indebtedness; bankers' acceptances; commercial paper; corporate bonds and notes; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; securities lending; bank deposits; money market mutual funds; the State of California Local Agency Investment Fund (LAIF); and the Investment Trust of California (CalTRUST).

#### 1. 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.

The Policy sets specific parameters on the credit quality of investment purchases. Securities issued and fully guaranteed as to payment by an agency or government sponsored enterprise of the U.S. Government be rated AAA by at least two of the three major rating services, i.e. Fitch, Moody's and Standard & Poor's (S&P). Commercial paper obligations and negotiable certificates of deposit shall be rated by at least two of the three major rating services at a minimum of F1 by Fitch, P-1 by Moody's and A-1 by S&P. Corporate notes, with a maturity greater than three years, shall be rated AA by at least two of the three major rating services. Corporate notes, with a maturity of three years or less, shall be rated AA- by at least two of the three major ratings services. Corporate Temporary Liquidity Guarantee Program (TLGP) notes shall be rated AAA by one of the three major ratings services.

At the time of purchase, the Treasurer's investment policy dictates that no more than 5% of the total portfolio be invested in the securities of any single issuer, other than the U.S. Government, its agencies, and sponsored enterprises. As of the fiscal year ended June 30, 2012, the pooled investments did not exceed the 5% limit.

**III. CASH AND INVESTMENTS - Continued**

**B. Investments - Continued**

**1. Credit Risk and Concentration of Credit Risk - Continued**

The following is a summary of the credit quality distribution by investment type as a percentage of fair value at June 30, 2012:

Investment Type	Total	% of Portfolio	Exempt from Disclosure	Minimum Legal Rating
Cash equivalents and investments in County Investment Pool	\$ 7,728,969	100%	\$ -	Not Rated
Total cash and investments	\$ 7,728,969		\$ -	

**2. Custodial Credit Risk**

Custodial credit risk for investments is the risk that the APCD will not be able to recover the value of investment securities that are in the possession of an outside party. All securities owned by the Treasurer, on the APCD’s behalf, are deposited in trust for safekeeping with a custodial bank different from the Treasurer’s primary bank. Securities are not held in broker accounts.

**3. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The County Treasurer mitigates this risk by making longer-term investments only with funds that are not needed for current cash flow purposes and holding these securities to maturity. The maturity of investments purchased is governed by a demand for funds analysis of prior periods’ revenues and expenditures, and is also determined by current cash flow demands assessed on an ongoing basis. The Treasurer’s Investment Policy also dictates that the final maturity date of any individual security shall not exceed five years and that longterm investments, in the aggregate, shall not exceed 75% of the portfolio.

The fair value of investments generally changes with the fluctuations of interest rates. In a rising interest rate market, the fair value of investments could decline below original cost; conversely, when interest rates decline, the fair value of investments increases. The Treasurer believes liquidity in the portfolio is sufficient to meet cash flow needs and to preclude the Treasurer from having to sell investments below original cost.

The Treasurer may purchase securities at a discount from face value to earn higher than nominal rates of return. Under GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, such discount, when realized, is considered gain rather than interest. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s).

**III. CASH AND INVESTMENTS - Continued**

**B. Investments - Continued**

**3. Interest Rate Risk - Continued**

Information about the sensitivity of the fair values of the APCD's investment to market interest rate fluctuation is provided by the following table that shows the average maturity date of each investment.

	Total	Remaining Maturity 12 Months or Less
Cash equivalents and investments in County Investment Pool	<u>\$ 7,728,969</u>	<u>\$ 7,728,969</u>
Total cash and investments	<u>\$ 7,728,969</u>	<u>\$ 7,728,969</u>

**C. Cash and Investments Held by the Treasurer**

The following is a summary of investments held by the Treasurer, on behalf of the APCD, as of June 30, 2012:

Statement of net assets:

Cash and investments	<u>\$ 7,729,519</u>
Total cash and investments	<u>\$ 7,729,519</u>

Cash and investments as of June 30, 2012, consist of the following:

Cash on hand	\$ 550
Cash equivalents and investments in County Investment Pool	<u>7,728,969</u>
Total cash and investments	<u>\$ 7,729,519</u>

The portion of cash and investments as of June 30, 2012, that is restricted is as follows:

Total unrestricted cash and investments	\$ 7,237,769
Restricted cash and investments (note IV)	<u>491,750</u>
Total cash and investments	<u>\$ 7,729,519</u>

**IV. RESTRICTED CASH AND INVESTMENTS AND PERMIT HOLDERS PAYABLE**

Cash and investments at June 30, 2012 that are restricted by legal or contractual requirements are listed in the following table. An offsetting permit holders payable has also been recorded at an equivalent amount.

General Fund

Permit holder deposits	<u>\$ 491,750</u>
Total restricted cash and investments	<u>\$ 491,750</u>

**V. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<b>Governmental activities:</b>				
Capital assets, being depreciated:				
Furniture	\$ 399,028	\$ -	\$ -	\$ 399,028
Equipment	1,521,425	152,967	(42,525)	1,631,867
Total capital assets, being depreciated	<u>1,920,453</u>	<u>152,967</u>	<u>(42,525)</u>	<u>2,030,895</u>
Less accumulated depreciation for:				
Furniture	(399,028)	-	-	(399,028)
Equipment	(1,215,573)	(128,105)	42,525	(1,301,153)
Total accumulated depreciation	<u>(1,614,601)</u>	<u>(128,105)</u>	<u>42,525</u>	<u>(1,700,181)</u>
Total capital assets, net	<u>\$ 305,852</u>	<u>\$ 24,862</u>	<u>\$ -</u>	<u>\$ 330,714</u>

**VI. LEASE OBLIGATIONS**

**Operating Leases**

The following is a schedule by years of future minimum rental payments required under operating leases entered into by the APCD that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2012. A significant portion of the lease obligation is with the County of Santa Barbara (see Note VII).

Year Ending June 30,	Casa Nueva	Aegis	Cook St.	Total
2013	236,636	17,148	40,421	294,205
2014	236,636	17,148	-	253,784
2015	236,636	17,148	-	253,784
2016	236,636	17,148	-	253,784
2017-2021	1,183,180	60,016	-	1,243,196
2022-2026	1,183,180	-	-	1,183,180
2027-2031	1,183,180	-	-	1,183,180
2032-2033	433,832	-	-	433,832
Total Minimum Payments Required	<u>\$4,929,916</u>	<u>\$ 128,608</u>	<u>\$ 40,421</u>	<u>\$5,098,945</u>

Total rental expenditure/expense for the year ended June 30, 2012 was \$298,406.

**VII. RELATED PARTY TRANSACTIONS**

The APCD 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 APCD, and the County Auditor-Controller performs data entry, report generation, warrant issuance, and other related functions for the APCD.

The APCD is not a component unit of the County of Santa Barbara; however, the cash assets of the APCD are included in the basic financial statements of the County of Santa Barbara in an investment trust fund.

**VII. RELATED PARTY TRANSACTIONS - Continued**

The APCD typically reimburses the County of Santa Barbara for a share of County overhead and other services costs. For the year ended June 30, 2012, the County of Santa Barbara was paid \$45,239 for allocated overhead costs.

The APCD has two leases with the County of Santa Barbara. One is for the Casa Nueva building, with a 30-year term, and the other is for the Aegis building, with a 20-year term, with total minimum remaining payments of \$4,929,916 and \$128,608 respectively (see Note VI).

The APCD subleases a portion of its Santa Maria office to the Santa Barbara County Association of Governments (SBCAG) for \$2,385 annually, plus a share of common area cost.

The APCD shares tenancy of Casa Nueva with SBCAG and the County and allocates costs to the co-tenants for various utilities and common area services.

**VIII. EMPLOYEE COMPENSATED ABSENCES**

The following is a summary of the employee compensated absences of the APCD for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
<b>Governmental activities:</b>					
Employee compensated absences	\$ 348,012	\$ 284,512	\$ 279,799	\$ 352,725	\$ 352,725
Total employee compensated absences	<u>\$ 348,012</u>	<u>\$ 284,512</u>	<u>\$ 279,799</u>	<u>\$ 352,725</u>	<u>\$ 352,725</u>

Compensated absences are liquidated through the General Fund.

**IX. COMMITMENTS AND CONTINGENCIES**

The management of the APCD is not aware of any outstanding claims or litigation liabilities.

The APCD recognizes as revenue, grant monies received as reimbursement for costs incurred in certain federal and state programs it administers. Although the APCD's grant programs have been audited through June 30, 2012, the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

**X. RISK FINANCING**

The Air Pollution Control District 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, only changes in how the types of coverage and deductibles are described. For the past three fiscal years, no settlement amounts have exceeded insurance coverage.

**X. RISK FINANCING - Continued**

The APCD carries:

Description	Limit	Deductible
<i>Special District Risk Management Authority (SDRMA)</i>		
Worker's Compensation	\$ 300,000,000	\$ -
Employer's Liability	5,000,000	-
<i>Alliant Crime Insurance Program (ACIP)</i>		
Government Crime Policy on Discovery	3,000,000	2,500
<i>Public Entity Property Insurance Program (PEPIP)</i>		
All Perils, Coverages and Insured/Members combined, subject to the following per occurrence and/or aggregates sub-limits as noted	1,000,000,000	10,000
Per Member/Entity per occurrence subject to \$200,000,000 Annual Ag.	100,000,000	10,000
Terrorism per Member/Entity (all members combined \$550,000,000) subject to Annual Ag. of \$850,000,000.	250,000,000	10,000
Combined Business Interruption and Rental Income	100,000,000	10,000
Extra Expense, Expediting Expenses, and Errors and Omissions	50,000,000	10,000
Miscellaneous Unnamed Locations for existing Members, Course of Construction, Additions, and Increase Cost of Construction, Transit, and Off Premises Services Interruption	25,000,000	10,000
Scheduled Landscaping (Subject to \$25,000/25 gal limit per item)	5,000,000	10,000
Unscheduled Landscaping (Subject to \$25,000/25 gal limit per item)	1,000,000	10,000
Per Occurrence and Annual Aggregate for Earthquake Shock and Flood on Licensed Vehicles	5,000,000	10,000
Money, Securities, Unscheduled Fine Arts, Contingent Business Interruption	2,500,000	10,000
Accidental Contamination per Occurrence and Annual Aggregate	250,000	10,000
Vehicle Physical Damage	Vehicle Val.	5,000
Contractor Equipment and Primary Terrorism	10,000	5,000
Excess Terrorism (only if primary limit is exhausted)	500,000	5,000
<i>Public Entity Property Insurance Program (PEPIP) Boiler &amp; Machinery</i>		
Boiler and Machinery, Breakdown, Combined Property Damages and Business Interruption/Extra Expense	100,000,000	5,000
Utility Interruption for Utilities Owned by Others, Water Damage, Consequential Damage, Electronic Data Processing Media	10,000,000	5,000
Earthquake Resultant Damage	2,000,000	5,000
Hazardous Substance	1,000,000	5,000
<i>Special Liability Insurance Program (SLIP)</i>		
Maximum per Occurrence Limit for all Coverages Combined	5,000,000	n/a
Personal Injury (Including Bodily Injury and Property Damage)	5,000,000	2,500
Owned Automobile Liability and Non-Owned and Hired Automobile	5,000,000	2,500
Public Officials Errors and Omissions	5,000,000	2,500
Uninsured Motorist	1,000,000	2,500
Employment Practices Liability	2,000,000	10,000
Sublimits		
Fire Damage Liability (Sublimit of Personal Injury/Property Damage Coverage Limit)	1,000,000	2,500

Limits and Deductibles are per occurrence, unless otherwise stated in the description.

## **XI. RETIREMENT PLAN**

### **A. 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 APCD, as well as the County of Santa Barbara (County), 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 Association of Governments, and the Santa Barbara County Superior Court.

The Retirement System has one APCD retirement plan with two tiers, of which, one tier is currently available to new employees. All plans provide benefits as defined by law upon retirement, death, or disability of members based on age, years of service, final average salary (generally 12 highest consecutive months), and the benefit options selected.

### **B. Fiduciary Responsibility**

The Retirement System, governed by the Board of Retirement, is a fiduciary for the accounting and control of member and employer contributions, investment income and member benefits. The Board of Retirement is responsible for establishing policies governing the administration of the retirement plan and managing the investment of the Retirement System's assets under authority granted by Article XVI of the Constitution of the State of California. Article XVI, Section 17(a) provides the Retirement Board has the "sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries." Section 17(b) further provides that "members of the Retirement Board of a public retirement system shall discharge their duties...solely in the interest of, and for the exclusive purpose of providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty."

The Board consists of nine members and two alternates. These positions are filled as follows: the County Board of Supervisors appoints four, members of the Retirement System elect six (including the two alternates), and the County Treasurer-Tax Collector is an ex-officio member. The Retirement System is a legally separate entity and is not a component unit of the APCD. It publishes its own Comprehensive Annual Financial Report and receives its own independent audit.

**XI. RETIREMENT PLAN - Continued**

**B. Fiduciary Responsibility - Continued**

Additional detailed information and separately issued financial statements of the Retirement System can be obtained at 3916 State St. Suite 210, Santa Barbara, CA 93105.

**C. Employer/Employee Contribution Rates**

Employer and employee contribution rates are as follows:

<u>Open for New Enrollment</u>	<u>Description</u>	<u>Employer Contribution Rates</u>	<u>Employee Contribution Rates</u>
APCD Plan (Tier 2)	All APCD employees hired on or after July 3, 1995	31.46%	5.68 – 10.81%
<u>Closed to New Enrollment</u>	<u>Description</u>		
APCD Plan (Tier 1)	Employees hired before July 2, 1995 may continue the plan	34.27%	2.84 – 5.41%

**D. Annual Pension Cost**

The annual required contribution for the current year was determined as part of an actuarial valuation performed as of June 30, 2012. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 7.75%; (2) inflation element in wage increases of 3.75%; and (3) projected salary increases of varying percentages based on service (duration) for merit and longevity. Under an open/rolling amortization method, the entire unfunded actuarial accrued liability is amortized over a constant period, in this case, 17 years. The amortization factor does not change from year to year unless the discount rate or salary assumption is changed.

**E. Three-Year Trend Information**

The APCD’s actual contributions, annual pension cost, and the percentage of annual pension cost contributed, for the current year and each of the two preceding years, are as follows:

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Contributions</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contributed</u>
6/30/2010	6/30/2008	980,481	980,481	100%
6/30/2011	6/30/2009	1,109,651	1,109,651	100%
6/30/2012	6/30/2010	1,205,738	1,205,738	100%

**F. Funding Policy**

Contributions are made by members and employers at rates recommended by an independent actuary, approved by the Retirement System Board, and adopted by the County Board of Supervisors. For certain employee bargaining units, a portion of the members’ contribution is paid by the APCD. Employee contributions are based upon each individual member’s hire date and age of entry into the system. Employee contributions cannot be withdrawn until separation from employment.

## **XII. OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

### **A. Plan Description**

The APCD's cost sharing multiple-employer defined benefit post-employment healthcare plan (OPEB Plan) is administered by the Santa Barbara County Employees' Retirement System (Retirement System). The OPEB Plan provides medical benefits to eligible retired APCD and other employer plan sponsors' employees, as well as to their eligible dependents, pursuant to California Government Code Section 31694 et. seq. Other employer plan sponsors include the County of Santa Barbara (County), the Carpinteria-Summerland Fire Protection District, Goleta Cemetery District, Santa Maria Cemetery District, Carpinteria Cemetery District, Summerland Sanitary District, Santa Barbara County Association of Governments, and the Santa Barbara County Superior Court.

In September 2008, the APCD and the Retirement System adopted an Internal Revenue Code (IRC) Section 401(h) account that provides for these benefits. Under GASB Statement 43, *Reporting for Post-Employment Benefit Plans Other Than Pension Plans* and GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, the liability related to the plan is required to be determined for both retirement systems and employers. GASB Statements 43 and 45 are not limited to the reporting of vested benefits.

The Retirement System issues its own Comprehensive Annual Financial Report which includes note disclosures and required supplementary information for the OPEB Plan. This may be obtained online at [www.sbcers.org](http://www.sbcers.org) or by writing to the Santa Barbara County Employees' Retirement System at 3916 State St. Suite 210 Santa Barbara, CA 93105.

### **B. Plan Benefits**

The County negotiates health care contracts with providers for both its active employees and the participating retired members of the Retirement System. APCD retirees are offered the same health plans as active County employees, as well as enhanced senior plans for retirees on Medicare. Retiree premiums are rated separately from active County employees; as such, the APCD does not have a retiree premium implicit rate subsidy.

Pursuant to the OPEB Plan, the APCD Board has determined to provide a monthly insurance premium subsidy of \$15 (whole dollars) per year of credited service from the 401(h) account for Eligible Retired Participants participating in a County-sponsored health insurance plan. The monthly insurance premium subsidy is applied directly by the Retirement System to pay the premium and is not paid to the retiree or other party. The maximum amount paid in any month does not exceed the premium; any amount in excess of the premium is forfeited. If an Eligible Retired Participant does not participate in the County-sponsored health insurance plan, then the Retirement System reimburses the Eligible Retired Participant for other medical care expenses. The maximum monthly amount paid is \$4 (whole dollars) per year of credited service.

If a member is eligible for a disability retirement benefit, the member can receive a monthly health plan subsidy of \$187 (whole dollars) per month or a subsidy of \$15 (whole dollars) per month per year of service, whichever is greater. This subsidy is treated as a nontaxable amount to the disabled recipient.

Survivors of Eligible Retired Participants (Spouses and Dependents) continue to receive a subsidy proportionate to their percentage of the retiree's pension benefit.

**XII. OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued**

**C. Funding Policy**

Participating employer plan sponsors individually determine their separate contributions to the Retirement System to fund the OPEB Plan. The APCD has adopted a policy of funding at an amount not to exceed 25% of its normal retirement costs in any given fiscal year, in order to pre-fund the benefit at the maximum amount allowed under the IRC.

For fiscal year ended June 30, 2012, the OPEB annual required contribution (ARC) was \$127,697, or 3.7% percent of the APCD’s estimated annual covered payroll. This includes the normal cost for the year for current active employees of \$70,085, and \$57,611 for unfunded actuarial accrued liabilities (UAAL) amortization. The APCD’s contribution to the OPEB Plan for fiscal year ended June 30, 2012 was \$199,196.

**D. Annual OPEB Cost and Net OPEB Obligation**

The APCD’s annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined within the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize, over an open/rolling 30 years, any UAAL which consist of current retirees, current vested terminated employees, and current active employees.

The following are the components of the APCD’s annual OPEB cost for the fiscal year ended June 30, 2012:

Annual required contribution (ARC)	\$ 127,697
Interest on net OPEB obligation	(5,015)
Adjustment to ARC	4,327
Annual OPEB cost	<u>127,009</u>
Contributions made	<u>(199,196)</u>
Increase in net OPEB Obligation	(72,187)
Net OPEB obligation - beginning of year	<u>(125,374)</u>
Net OPEB obligation - end of year	<u><u>\$ (197,561)</u></u>

The APCD’s annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation for the current year and the three preceding years, are as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributed	Percentage of ARC Contributed	Net OPEB Obligation/(Asset)
6/30/2009	\$ 130,998	\$ 153,335	117.1%	\$ (22,337)
6/30/2010	136,686	186,134	136.2%	(49,448)
6/30/2011	122,687	176,276	143.7%	(53,589)
6/30/2012	127,009	199,196	156.8%	<u>(72,187)</u>
				<u><u>\$ (197,561)</u></u>

The quantification of costs set forth above should not be interpreted in any way as vesting such benefits; rather the disclosures are made solely to comply with the APCD’s reporting obligations under GASB 45, as the APCD understands these obligations.

**XII. OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued**

**E. Funded Status and Funding Progress**

Using the most recent actuarial valuation dated June 30, 2012, the following is the funded status of the OPEB Plan:

Actuarial accrued liability (AAL)	\$ 1,932,699
Actuarial value of plan assets	<u>(556,504)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,376,195</u>
Funded ratio (actuarial value of plan assets/AAL)	28.8%
Covered payroll (active plan members)	\$ 3,474,506
UAAL as a percentage of covered payroll	39.6%

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the OPEB Plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the APCD's OPEB is presented as required supplementary information following the notes to the financial statements. This schedule will, in the subsequent fiscal year, present multiyear trend information that shows whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the AAL for benefits.

**F. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation as well as the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets (if any), consistent with the long-term perspective of the calculations.

In the Retirement System's June 30, 2009 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of investment expenses) and no anticipated health care benefit increases. The OPEB Plan's unfunded AAL is being amortized using an open/rolling amortization period of 30 years. This is the longest amortization period available and will result in the lowest level of ARC and Net OPEB obligations for the APCD's financial statements.

**G. Request for Internal Revenue Service Determination on the Continued Qualified Status of Plan and Submission to the Voluntary Correction Program**

In July 2008 the County of Santa Barbara (County), a participating plan employer, requested a determination from the Internal Revenue Service (IRS) on the continued qualified status of the Santa Barbara County Employees' Retirement System Plan (Plan) in its entirety under Section 401(a) of the Internal Revenue Code of 1986. In conjunction with this determination the Plan was submitted for a correction through the IRS's Voluntary Compliance Program (VCP).

## **XII. OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued**

### **G. Request for Internal Revenue Service Determination on the Continued Qualified Status of Plan and Submission to the Voluntary Correction Program - Continued**

The purpose of the submission was to correct both Plan document and operational compliance issues stemming from practices related to the funding of retiree health benefits. The submission identified the problem area, the cause of the problem, and proposed solution(s) for IRS approval; the County's proposed solution included a 401(h) plan. In September 2008 the County, as well as the APCD, and the Retirement System adopted a 401(h) plan to provide retiree health benefits.

In May 2010 the County submitted a supplement to the July 2008 VCP filing to the IRS. This filing was primarily based on a report produced by the actuarial firm Mercer entitled "Contributions in Excess of the Annual Required Contribution." In this report, Mercer reviewed the historical contributions the County made to the Plan and compared them to what the Annual Required Contribution (ARC) would have been if the reserve earmarked for retiree health benefits had not been established, and those assets were included as pension valuation assets. In each fiscal year, the County's pension contribution in excess of the otherwise required ARC also exceeded the amount paid out by the Plan in retiree healthcare benefits for that year. Cumulatively, the County contributed approximately \$122,000 in excess of the otherwise required ARC for pension benefits compared to approximately \$66,000 in retiree healthcare premium payments. The APCD's pension contributions in excess of the otherwise required ARC also exceeded the amount paid out by the Plan in retiree healthcare benefits for each fiscal year; however, a separate study was not conducted to determine the exact amounts for the APCD.

At this time, the APCD is unable to predict the exact timing of any guidance that may be obtained from the IRS or the results or impact of such guidance. In order for the Retirement System to maintain its qualified status of the Retirement System, the IRS may request that the County, including the APCD and other participating employers, restore any pension funds used to pay retiree health benefits (plus interest), pay fees, pay interest, and/or request that the Retirement System reallocate assets between pension liabilities and retiree health liabilities. Based on the above mentioned Mercer report, the APCD does not expect an adverse determination or any corrective action, but must await final notification; therefore the amount of any additional fees, interest, reallocation, and contributions is unknown at this time.

## **XIII. DEFERRED COMPENSATION PLANS**

### **A. Employee Contribution Deferred Compensation Plan**

The APCD offers to its employees an optional deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code (IRC). This plan is available to substantially all employees and allows participants to defer a portion of their current income until future years up to a maximum of \$17,000 (during calendar year 2012), so as to shelter such funds and earnings from state and federal taxation until withdrawal. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

This plan is administered through a third-party administrator. The APCD does not perform the investing function, and has no fiduciary accountability for the plan. Thus, the plan assets and any related liability to plan participants have been excluded from these financial statements.

**XIII. DEFERRED COMPENSATION PLANS - Continued**

**B. Social Security Compliance Deferred Compensation Plan**

The APCD's Social Security Compliance Deferred Compensation Plan is a supplemental retirement program utilized by the APCD in lieu of payments to Social Security (FICA), governed under Internal Revenue Code Sections 3121 and 457. Enrollment in this plan is mandatory for contract, extra-help, seasonal and temporary employees. Employees enrolled in the regular retirement system are not eligible for this plan. Based upon the employee's gross compensation, the employee's deferral, on a before-tax basis, equals 6.2% and the APCD's contribution equals 1.5% for a combined total of 7.7%.

This plan is administered through a third-party administrator. The APCD does not perform the investing function, and has no fiduciary accountability for the plan. Thus, the plan assets and any related liability to plan participants have been excluded from these financial statements.

The APCD's actual contributions for the current year and two preceding years are as follows:

<u>Fiscal Year Ended</u>	<u>Contributed</u>
6/30/2010	\$ 1,547
6/30/2011	\$ 1,778
6/30/2012	\$ 2,015

**XIV. APCD OWNED EMISSION REDUCTION CREDITS (ERCs)**

On April 14, 2009, the United States Air Force (USAF) transferred ERC Certificate No. 0091-1108 to the APCD containing 3.00 tons per quarter (tpq) of oxides of nitrogen (NOx). This was done as part of the Environmental Investment (ENVVEST) Program and the requirements of APCD Regulation XIII.

The Santa Barbara County market for ERCs would indicate a potential fair value of \$600,000 for these credits. Given that it is impossible to predict when and if the credits might be sold, and at what price, management believes it would be misleading to record them in the financial statements at any value at this time.

Management, however, would like financial statement readers to be aware that the APCD is in possession of these credits and that they may be sold at some point in the future.

**XV. SUBSEQUENT EVENTS**

Subsequent to the date of these financial statements, the APCD was notified that it is a party to an insurance claim regarding age discrimination. The APCD's general counsel believes that there will be no material loss as any claim or judgment against the APCD would be covered by its insurance.

**Santa Barbara County Air Pollution Control District  
 General Fund - Budgetary Comparison Schedule (Budgetary Basis)  
 For the Fiscal Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget - Positive (Negative)
<b>Revenues:</b>				
Licenses, permits, and franchises	\$ 3,574,056	\$ 3,574,056	\$ 4,162,559	\$ 588,503
Use of money and property	130,000	126,947	47,067	(79,880)
Grants and subventions	2,896,439	2,896,439	2,848,840	(47,599)
Charges for services	1,536,138	1,536,138	1,629,645	93,507
Other	4,044	4,044	9,022	4,978
<b>Total revenues</b>	<b>8,140,677</b>	<b>8,137,624</b>	<b>8,697,133</b>	<b>559,509</b>
<b>Expenditures:</b>				
Air pollution control services:				
Salaries and benefits	5,631,082	5,631,082	5,547,586	83,496
Services and supplies	3,594,167	3,594,167	2,742,990	851,177
Other expenses	163,195	163,195	148,120	15,075
Capital outlay	184,500	184,500	152,967	31,533
<b>Total expenditures</b>	<b>9,572,944</b>	<b>9,572,944</b>	<b>8,591,663</b>	<b>981,281</b>
Excess (deficiency) of revenues over expenditures/expenses	(1,432,267)	(1,435,320)	105,470	1,540,790
<b>Fund balances:</b>				
Beginning of year	7,260,191	7,260,191	7,260,191	--
<b>End of year</b>	<b>\$ 5,827,924</b>	<b>\$ 5,824,871</b>	<b>\$ 7,365,661</b>	<b>\$ 1,540,790</b>

See accompanying independent auditors' report.

See accompanying notes to the General Fund – Budgetary Comparison Schedule.

**Santa Barbara County Air Pollution Control District  
Notes to the General Fund - Budgetary Comparison Schedule (Budgetary Basis)**

**As of June 30, 2012**

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**I. BASIS OF PRESENTATION**

Budgets are prepared on the modified accrual basis of accounting consistent with GAAP.

**II. BUDGETARY AND LEGAL COMPLIANCE**

In accordance with the California Health and Safety Code Section 40130-40131 and other statutory provisions, on or before July 1 for each fiscal year, the District must prepare and submit a budget to the County Auditor-Controller. Budgets are prepared on the modified accrual basis of accounting consistent with generally accepted accounting principles (GAAP).

Annually, the Board of Directors conducts two public hearings for the discussion of a proposed budget. At the conclusion of the hearings, the Board adopts the final budget. All appropriations lapse at fiscal year end and are subject to reappropriation as part of the following year's budget. The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the object level. The Air Pollution Control Officer (APCO) is delegated authority to make changes to the annual budget, provided it is within and between the salaries and benefits, services and supplies, other expenses, and capital outlay object levels. Subsequent to budget adoption, increases or decreases to reserves and designations must be adopted by a 4/5 vote of the Board. Lastly, the County Auditor-Controller is authorized to make administrative budget adjustments for the fair market value of assets held in the County Treasury.

**Changes from Original to Final Budgeted Amounts**

One supplemental revenue change to decrease budgeted use of money and property by \$3,053 was made by the Auditor-Controller during the year for the fair market value of assets held in the County Treasury, which also decreased the total budgeted revenues by \$3,053 to \$8,137,624.

As a result of the above change, the original use of prior year fund balance increased from \$1,432,267 to a final \$1,435,320.

**Variances with Final Budgeted Amounts**

There were no variances out of budgetary or legal compliance.

Please see the General Fund Budgetary Highlights section of the MD&A, beginning on page 20, for more details on the object level variances found in the budgetary comparison schedule.

**Santa Barbara County Air Pollution Control District  
Schedule of Funding Progress**

**As of June 30, 2012**

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1) ÷ (2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (4) ÷ (5)
6/30/2003	12,160,174	14,332,648	84.8%	2,172,474	3,827,600	56.8%
6/30/2004	14,428,392	16,425,675	87.8%	1,997,283	3,701,016	54.0%
6/30/2005	15,897,856	18,838,244	84.4%	2,940,388	3,910,457	75.2%
6/30/2006	17,795,091	21,180,484	84.0%	3,385,393	4,115,949	82.3%
6/30/2007	21,687,154	26,032,154	83.3%	4,345,000	3,939,567	110.3%
6/30/2008	24,895,783	28,838,720	86.3%	3,942,937	3,607,736	109.3%
6/30/2009	22,744,625	30,860,609	73.7%	8,115,984	3,954,592	205.2%
6/30/2010	26,056,912	34,631,911	75.2%	8,574,999	3,715,513	230.8%
6/30/2011	27,416,383	36,199,935	75.7%	8,783,552	3,457,409	254.1%
6/30/2012	28,061,690	37,674,681	74.5%	9,612,991	3,475,210	276.6%

Source: Santa Barbara County Employees' Retirement System Actuarial Valuation Report as of and for the year ended June 30, 2012.

**Notes to the Santa Barbara County Air Pollution Control District -  
Schedule of Funding Progress**

**I. INTENTION OF THE INFORMATION**

This information is intended to help users assess the APCD's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

The information presented relates solely to the APCD and not Santa Barbara County Employees' Retirement System as a whole.

**Santa Barbara County Air Pollution Control District  
Other Post-Employment Benefits (OPEB) Plan - Schedule of Funding Progress  
As of June 30, 2012**

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1) ÷ (2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (4) ÷ (5)
6/30/2009	\$ 127,521	\$ 1,851,551	6.9%	\$ 1,724,030	\$ 3,954,591	43.6%
6/30/2010	\$ 275,096	\$ 1,822,303	15.1%	\$ 1,547,207	\$ 3,715,513	41.6%
6/30/2012	\$ 556,504	\$ 1,932,699	28.8%	\$ 1,376,195	\$ 3,474,506	39.6%

Source: Milliman, Inc. "Santa Barbara County Employees' Retirement System Actuarial Valuation of Post-Employment Benefits Other than Pensions as of June 30, 2012"

See accompanying independent auditor's report.

**Notes to the Other Post-Employment Benefits (OPEB) Plan - Schedule of Funding Progress**

**I. INTENTION OF THE INFORMATION**

This information is intended to help users assess the APCD's OPEB plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

The information presented relates solely to the APCD and not Santa Barbara County Employees' Retirement System as a whole.



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Comprehensive Annual Financial Report  
Year Ended June 30, 2012

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## **STATISTICAL SECTION (UNAUDITED)**

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*General Fund Expenditures by Major Object (Combined Budgetary and GAAP Basis) – Last Ten Fiscal Years*

*General Fund Revenues by Major Object (Combined Budgetary and GAAP Basis) – Last Ten Fiscal Years*

*General Fund Fee Revenues by Fee Source – Fiscal Year 2011-12*

*General Fund Fee Revenues by Fee Source – Last Ten Fiscal Years*

*Emission Fee Revenues – Last Ten Fiscal Years*

*Key Air Quality and Demographic Information Regarding the Region Included in the Santa Barbara County Air Pollution Control District*

**Santa Barbara County Air Quality Trend – Last Ten Calendar Years**

**Santa Barbara County Population by City – Last Ten Calendar Years**

**Santa Barbara County Civilian Employment – Last Ten Calendar Years**

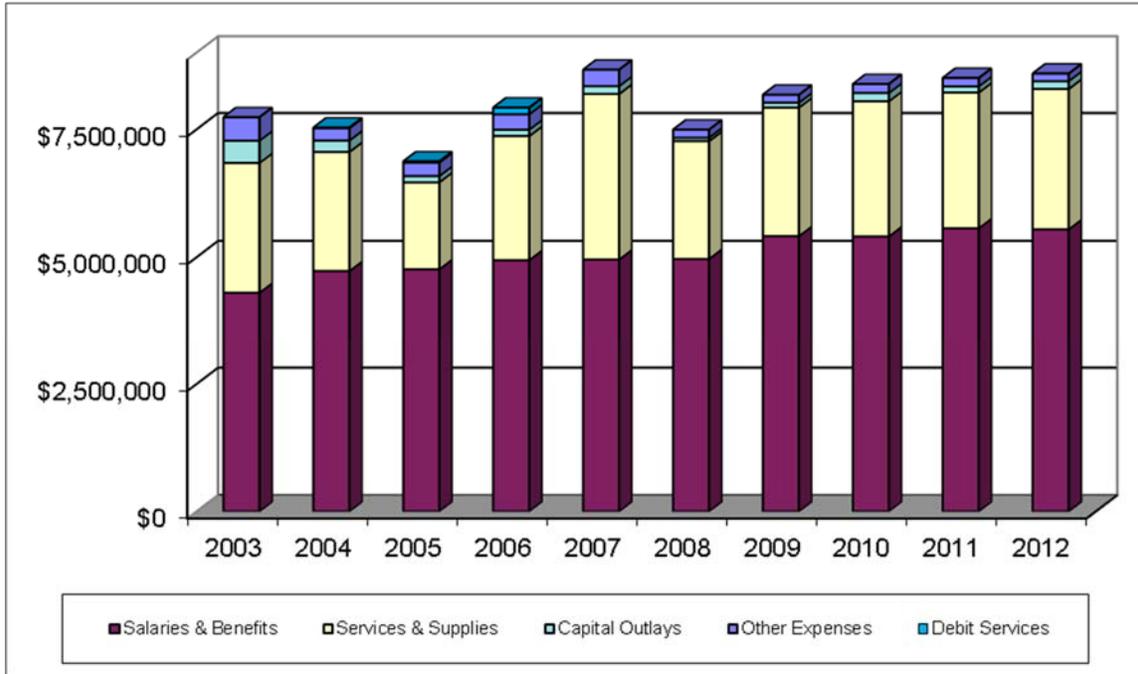
**Fee-Paid Vehicle Registrations and Fees Collected (Automobiles and Trucks) for Santa Barbara County – Last Ten Fiscal Years**

**Demographic and Miscellaneous Statistics**

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The information in the statistical section is not covered by the Independent Auditors' Report, but is presented as supplemental data for the benefit of the readers of the comprehensive annual financial report.

**General Fund Expenditures by Major Object  
(Combined Budgetary and GAAP Basis) -  
Last Ten Fiscal Years**

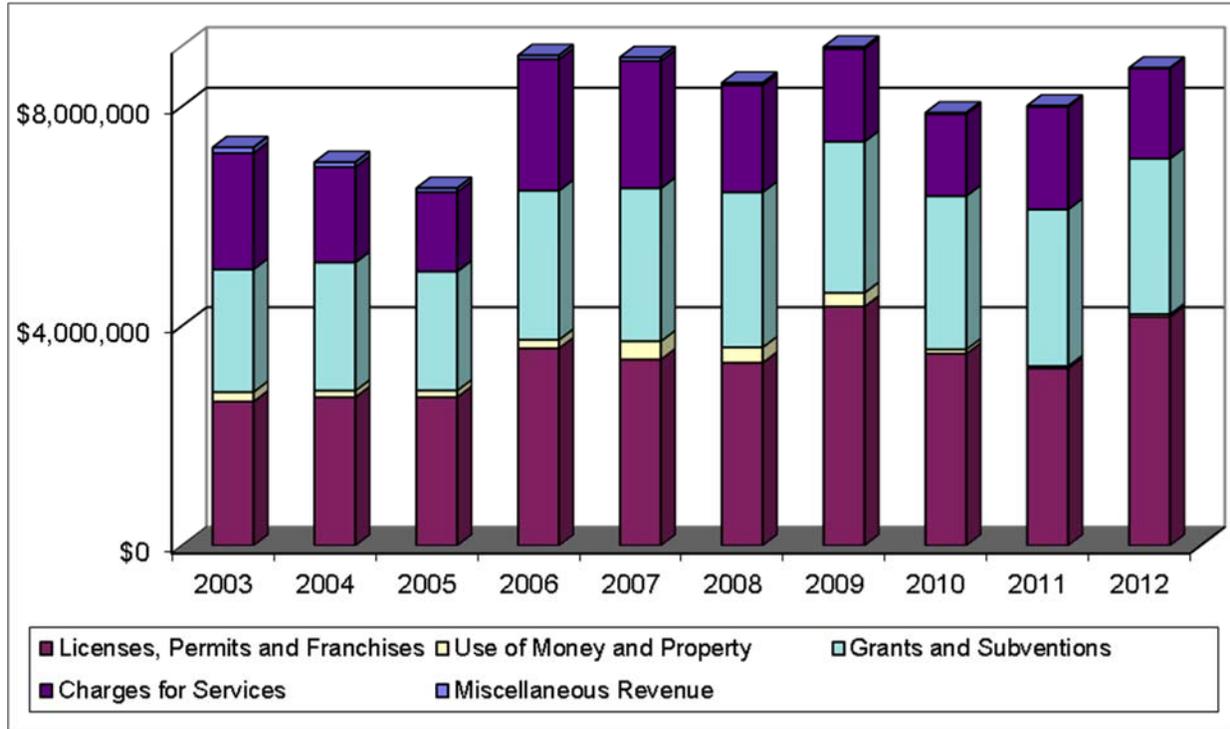


Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Other Expenses	Debt Service	Total Expenditures
2003	\$ 4,306,736	2,537,410	434,760	459,495		\$ 7,738,401
2004	\$ 4,730,443	2,329,006	222,384	241,323	11,434	\$ 7,534,590
2005	\$ 4,765,849	1,699,441	123,324	262,062	23,079	\$ 6,873,755
2006	\$ 4,944,060	2,425,606	124,339	301,565	130,342	\$ 7,925,912
2007	\$ 4,956,097	3,236,442	153,753	320,440		\$ 8,666,732
2008	\$ 4,968,527	2,301,481	66,867	158,307		\$ 7,495,182
2009	\$ 5,414,416	2,511,145	95,986	156,336		\$ 8,177,883
2010	\$ 5,407,472	2,641,301	163,446	175,188		\$ 8,387,407
2011	\$ 5,568,990	2,652,335	118,893	165,563		\$ 8,505,781
2012	\$ 5,547,586	2,742,990	152,967	148,120		\$ 8,591,663

Source:

Santa Barbara County Air Pollution Control District Audited Financial Statements

**General Fund Revenues by Major Object  
(Combined Budgetary and GAAP Basis) -  
Last Ten Fiscal Years**

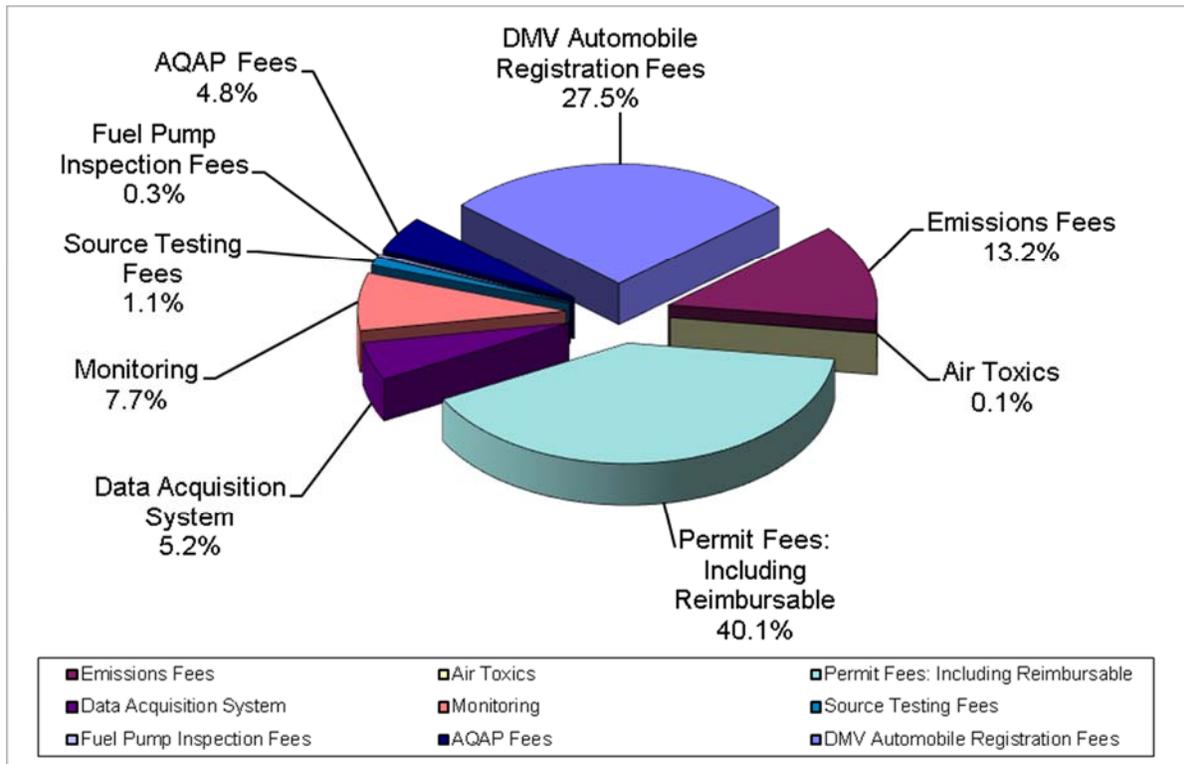


Year	Licenses, Permits and Franchises	Use of Money and Property	Grants and Subventions	Charges for Services	Miscellaneous Revenue	Total Revenues
2003	\$ 2,633,220	173,262	2,219,085	2,134,344	102,332	\$ 7,262,243
2004	\$ 2,712,627	117,836	2,320,330	1,755,033	88,367	\$ 6,994,193
2005	\$ 2,713,349	120,519	2,153,526	1,463,014	71,375	\$ 6,521,783
2006	\$ 3,591,224	154,294	2,730,758	2,380,341	69,961	\$ 8,926,578
2007	\$ 3,388,275	329,306	2,800,513	2,305,517	63,868	\$ 8,887,479
2008	\$ 3,328,064	279,247	2,838,854	1,935,857	42,677	\$ 8,424,699
2009	\$ 4,349,163	249,722	2,768,491	1,674,763	36,620	\$ 9,078,759
2010	\$ 3,491,018	78,637	2,808,773	1,480,161	22,590	\$ 7,881,179
2011	\$ 3,226,591	38,344	2,868,791	1,858,119	16,718	\$ 8,008,563
2012	\$ 4,162,559	47,067	2,848,840	1,629,645	9,022	\$ 8,697,133

Source:

Santa Barbara County Air Pollution Control District Audited Financial Statements

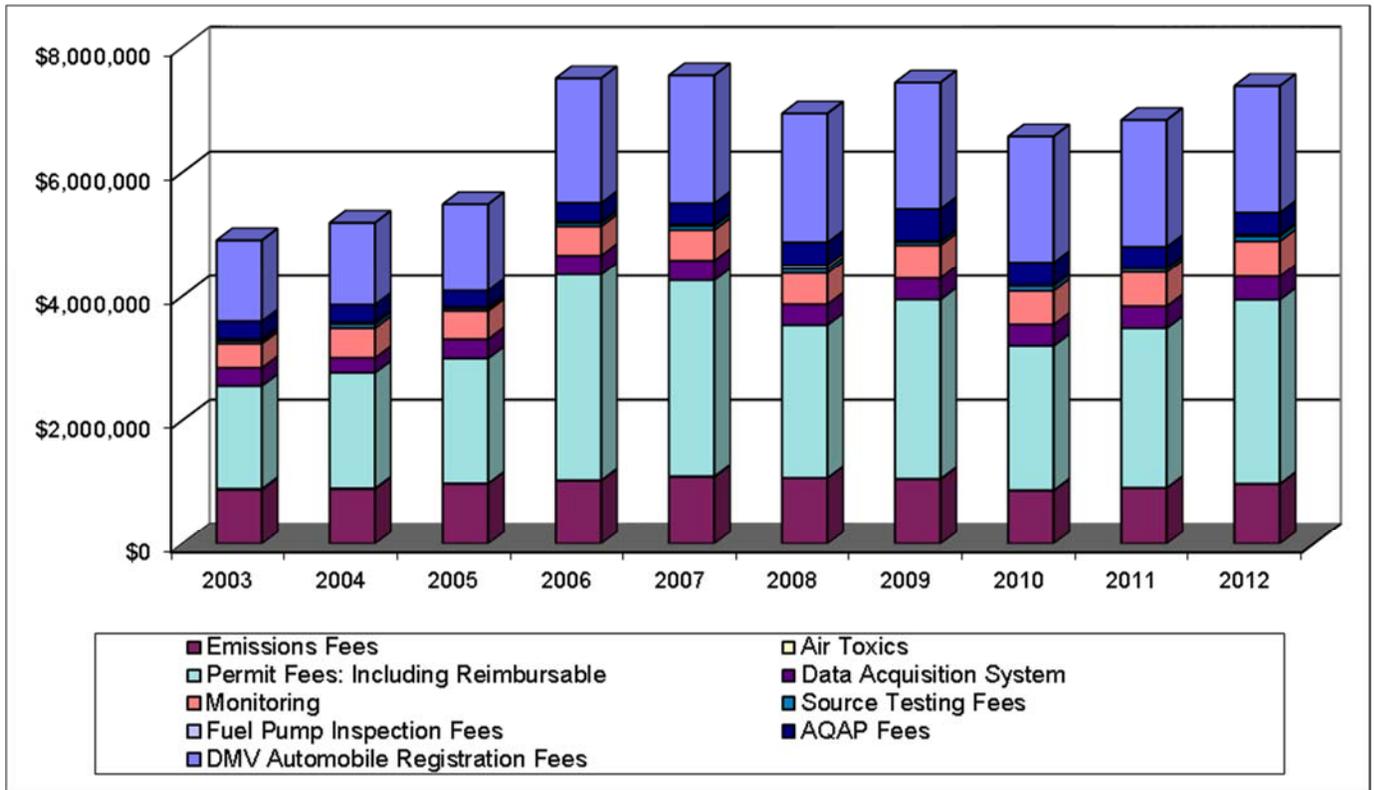
**General Fund Fee Revenues by Fee Source -  
Fiscal Year 2011-12**



Fee Source	FY 11-12
Emissions Fees	\$ 970,904
Air Toxics	5,829
Permit Fees: Including Reimbursable	2,963,944
Data Acquisition System	378,577
Monitoring	571,474
Source Testing Fees	82,685
Fuel Pump Inspection Fees	23,968
AQAP Fees	356,613
DMV Automobile Registration Fees	2,029,342
<b>Total Fee Revenues</b>	<b>\$ 7,383,336</b>

Source:  
Santa Barbara County Air Pollution District Audited Fee Revenues

**General Fund Fee Revenues by Fee Source -  
Last Ten Fiscal Years**



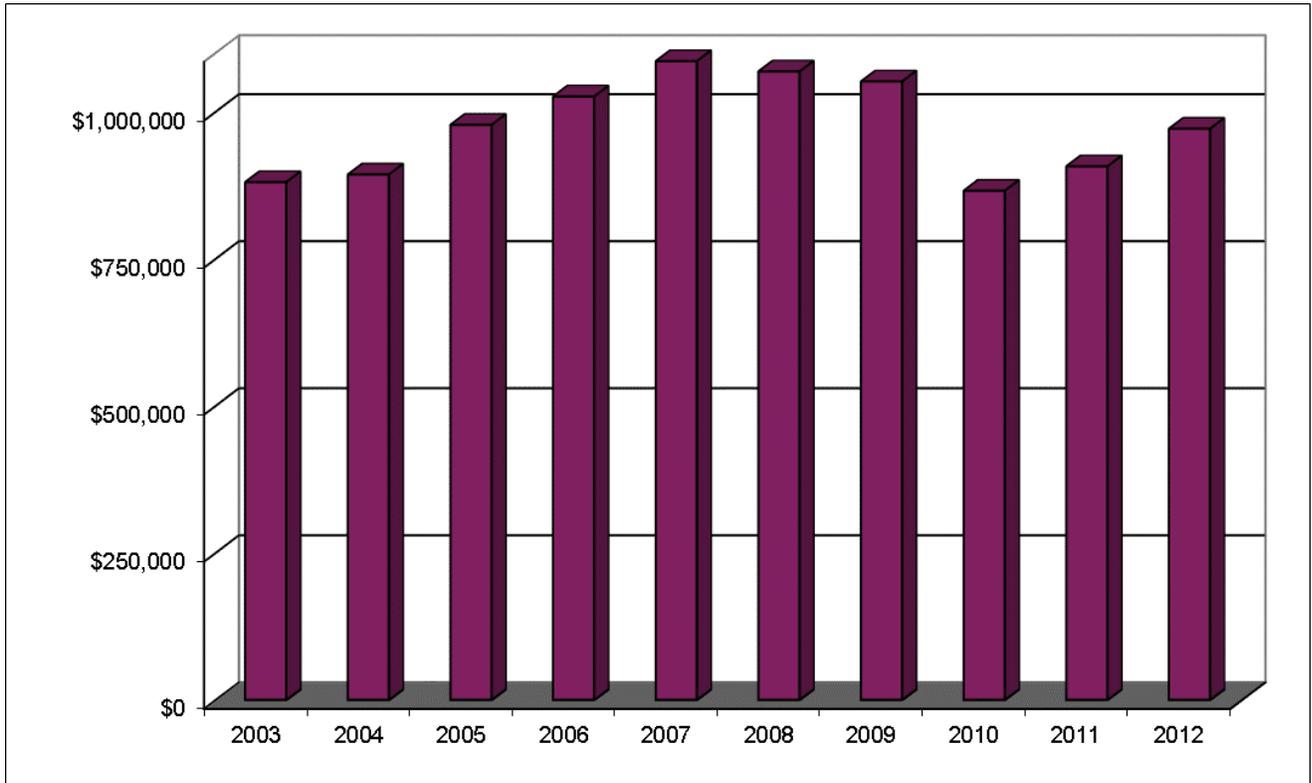
Year	Emissions Fees	Air Toxics	Permit Fees: Including Reimbursable	Data Acquisition System	Monitoring	Source Testing Fees	Fuel Pump Inspection Fees	AQAP Fees	DMV Automobile Registration Fees	Total Fee Revenues
2003	\$ 880,060	15,267	1,655,930	290,887	389,934	48,043	27,732	286,096	1,313,739	\$ 4,907,688
2004	\$ 892,979	10,652	1,859,879	239,875	478,190	67,174	27,384	285,577	1,327,591	\$ 5,189,301
2005	\$ 977,489	5,100	2,011,987	309,529	454,368	41,546	21,732	267,687	1,397,340	\$ 5,486,778
2006	\$ 1,025,676	9,086	3,315,396	310,314	472,089	55,300	16,641	305,550	1,995,966	\$ 7,506,018
2007	\$ 1,085,778	11,577	3,158,404	324,026	492,751	63,780	27,468	338,280	2,051,539	\$ 7,553,603
2008	\$ 1,068,178	3,908	2,457,229	336,726	508,847	66,903	62,410	369,709	2,067,453	\$ 6,941,363
2009	\$ 1,051,272	6,221	2,885,594	348,562	534,244	53,722	14,096	519,147	2,025,336	\$ 7,438,194
2010	\$ 865,433	6,152	2,324,726	343,360	544,809	78,270	12,441	372,224	2,026,839	\$ 6,574,254
2011	\$ 906,927	5,949	2,566,379	357,483	554,606	55,020	13,221	343,001	2,034,178	\$ 6,836,764
2012	\$ 970,904	5,829	2,963,944	378,577	571,474	82,685	23,968	356,613	2,029,342	\$ 7,383,336

Source:

Santa Barbara County Air Pollution District Audited Fee Revenues

***Emission Fee Revenues - Last Ten Fiscal Years***

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Year	Emission Fees
2003	880,060
2004	892,979
2005	977,489
2006	1,025,676
2007	1,085,778
2008	1,068,178
2009	1,051,272
2010	865,433
2011	906,927
2012	970,904

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Source:  
Santa Barbara County Air Pollution District Audited Fee Revenues

## ***Key Air Quality and Demographic Information Regarding the Region Included in the Santa Barbara County Air Pollution Control District***

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The Santa Barbara County Air Pollution Control District includes all of Santa Barbara County.

### *Geography*

Santa Barbara County, located approximately 100 miles northwest of Los Angeles and 300 miles south of San Francisco, was established by an act of the State Legislature on February 18, 1850. The County occupies 2,774 square miles, one-third of which is located in the Los Padres National Forest. Bordered on the West and South by the Pacific Ocean, the County has 110 miles of beaches, a little over half being south facing beaches. Agriculture figures prominently in the valleys with just over 700,000 acres devoted to crops and pasture. Strawberries, broccoli, grapes (wine), and avocados are the four most notable crops of the County.

*The County has 4 main urban areas:*

### Santa Barbara Coast

Santa Barbara Coast is located in the southern portion of the County. The area is bordered in the south by the Pacific Ocean and in the north by the Santa Ynez Mountain range, one of the few mountain systems in North America that run east-west rather than north-south. Because of the unique south-facing aspect, and its year round mild Mediterranean climate, it is fitting that Santa Barbara has been described by many as the “California Riviera.”

### Santa Ynez Valley

Santa Ynez Valley is located in the central portion of the County, nestled between the Santa Ynez and San Rafael mountain ranges. Santa Ynez Valley includes the communities of Buellton, Solvang, and Santa Ynez, as well as the Chumash Reservation. Lake Cachuma is also nestled between the mountain ranges, offering recreational activities and a water supply to the County. The Valley’s climate has recently attracted many wine makers to the area, adding vast vineyards to the rolling hills that lead to the Los Padres National Forest.

### Santa Maria Valley

Santa Maria Valley is located in the northern portion of the County, bordered by San Luis Obispo County on the north. Much of the new development within the County has been happening in the Santa Maria Valley area. The area has experienced a lot of change in the past decade.

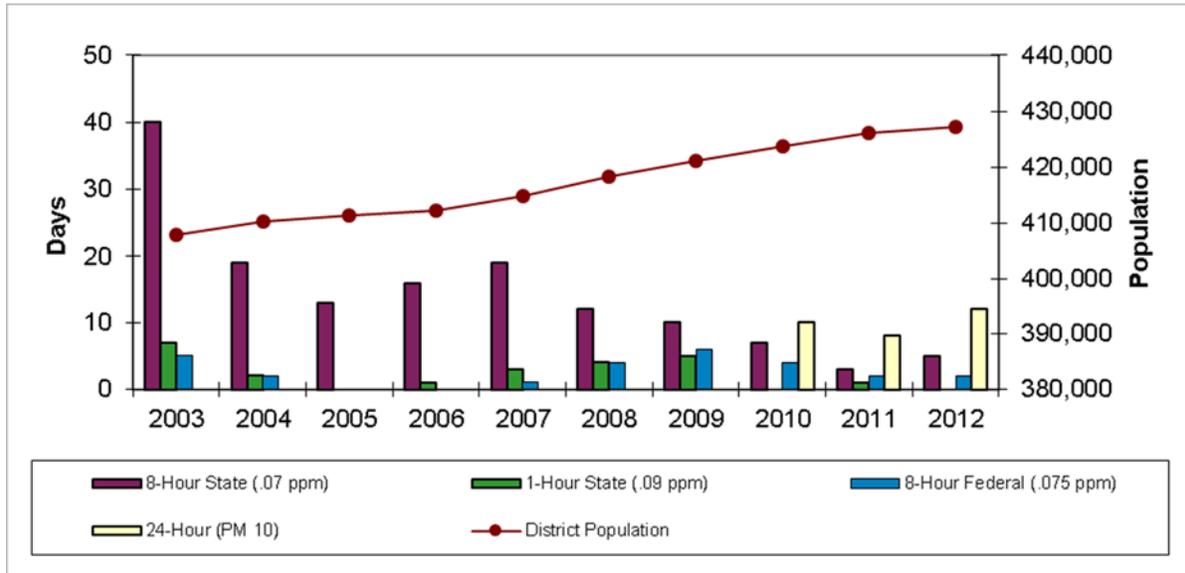
### Lompoc Valley

Lompoc Valley is located in the western portion of the County. Vandenberg Air Force Base is located in the Valley contributing many local employment opportunities to County residents.

Overall, the County is a popular tourist and recreational area, famous for its mild climate (at 64 degrees F and with 300 days of sunshine on average), picturesque coastline, scenic mountains, 114 parks, 18 beaches, and 17 golf courses. The County is rich in heritage and cultural diversity; Spanish-Mediterranean architecture on the South Coast, western style towns inland, missions, Danish village of Solvang, and numerous cultural festivals and parades, all reflect its diverse legacy. World-class music, opera, dance, theatre and visual arts, coupled with beautiful urban and rural communities, make the County a haven to those who live here, as well as a delight to those who visit from all over the world.

The following charts illustrate air quality, demographic, employment and motor vehicle information about the Santa Barbara County Air Pollution Control District region.

**Santa Barbara County Air Quality Trend - Last Ten Calendar Years**



Calendar Year Exceedances (number of days with an exceedance)					
Year	Ozone			Particulate Matter	District Population
	8-Hour State (.07 ppm)	1-Hour State (.09 ppm)	8-Hour Federal (.075 ppm)	24-Hour (PM 10)	
2003	40	7	5		407,828
2004	19	2	2		410,357
2005	13	0	0		411,440
2006	16	1	0		412,271
2007	19	3	1		414,750
2008	12	4	4		418,309
2009	10	5	6		421,197
2010	7	0	4	10	423,740
2011	3	1	2	8	424,732
2012	5	0	2	12	427,267

*Notes:*

Population figures are at January 1 of the years listed.

Added Particulate Matter statistics as of calendar year 2010.

*Sources:*

2001-2009 Data:

State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Counts. Sacramento, California, August 2011

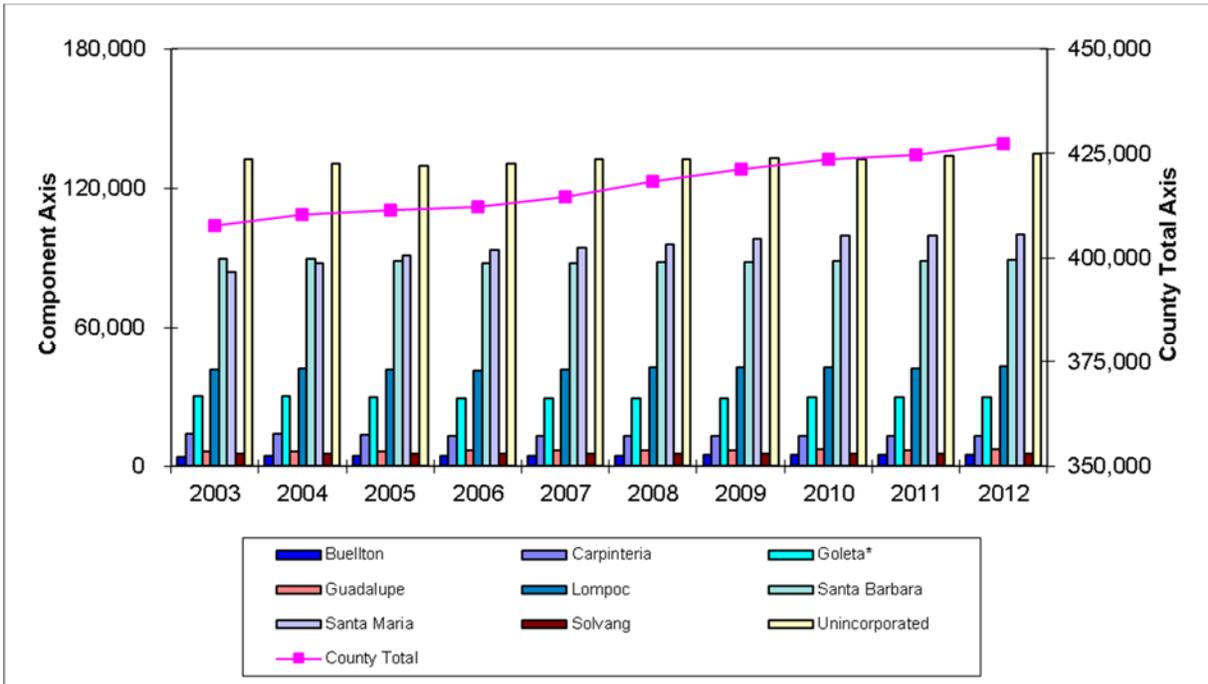
2011-2012 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties, and the State with Annual Percent Change — January 1, 2011 and 2012. Sacramento, California, May 2012

Smog Data:

Santa Barbara County Air Pollution Control District Monitoring Data.

**Santa Barbara County Population by City - Last Ten Calendar Years**



Santa Barbara County (January 1,)										
City	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Buellton	4,211	4,459	4,527	4,525	4,653	4,695	4,744	4,843	4,854	4,858
Carpinteria	13,973	13,813	13,562	13,258	13,102	13,121	13,136	13,129	13,041	13,076
Goleta*	30,357	30,181	29,803	29,298	29,137	29,273	29,266	29,789	29,887	29,930
Guadalupe	6,419	6,517	6,521	6,704	6,751	6,958	7,018	7,118	7,080	7,097
Lompoc	41,645	42,013	41,793	41,352	41,505	42,437	42,385	42,560	42,063	42,854
Santa Barbara	89,704	89,568	88,854	87,702	87,619	88,337	88,265	88,733	88,827	89,082
Santa Maria	83,828	87,732	91,313	93,385	94,408	95,934	98,163	99,589	99,582	100,199
Solvang	5,366	5,344	5,285	5,203	5,179	5,221	5,241	5,265	5,264	5,281
Unincorporated	132,325	130,730	129,782	130,844	132,396	132,333	132,979	132,714	134,134	134,890
<b>County Total</b>	<b>407,828</b>	<b>410,357</b>	<b>411,440</b>	<b>412,271</b>	<b>414,750</b>	<b>418,309</b>	<b>421,197</b>	<b>423,740</b>	<b>424,732</b>	<b>427,267</b>

\* Goleta incorporated in 2003.

Note:

Population figures are at January 1 of the years listed.

Sources:

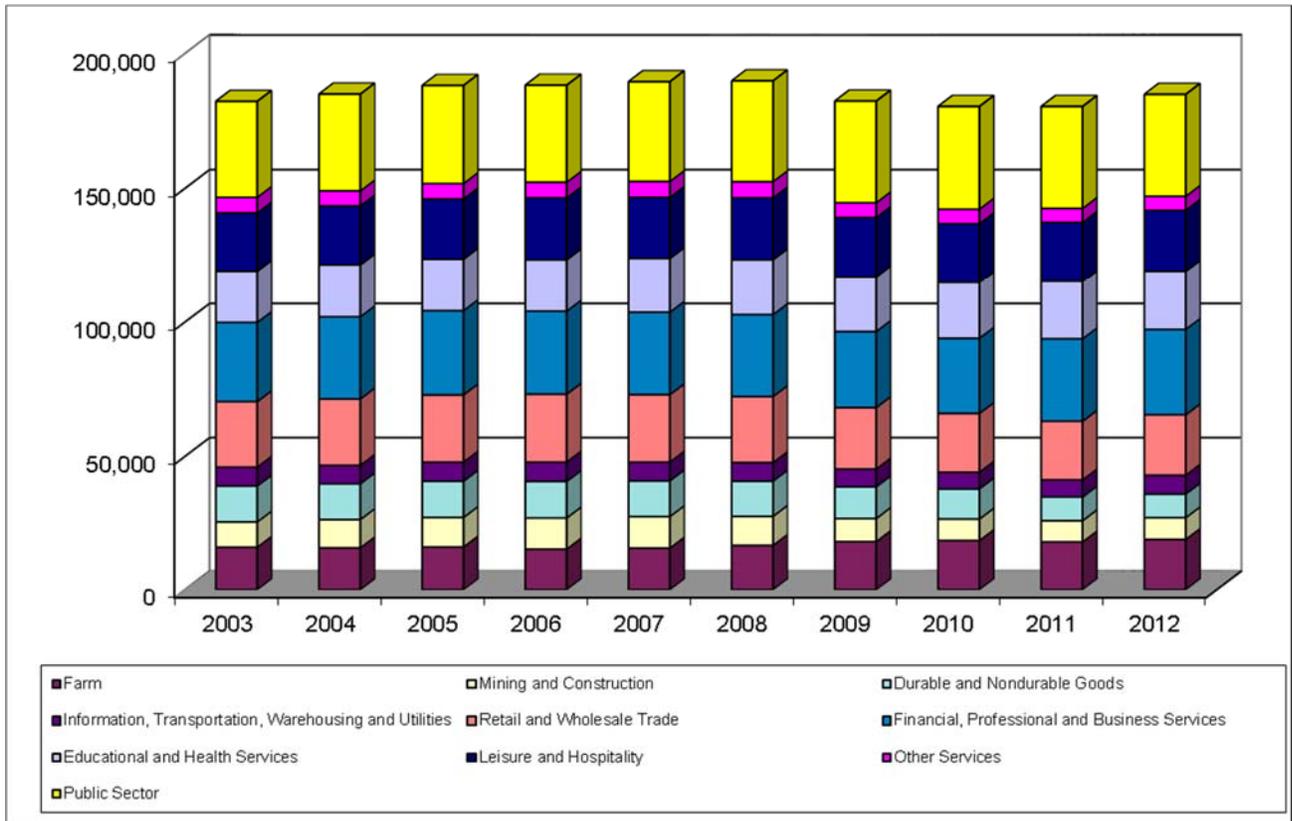
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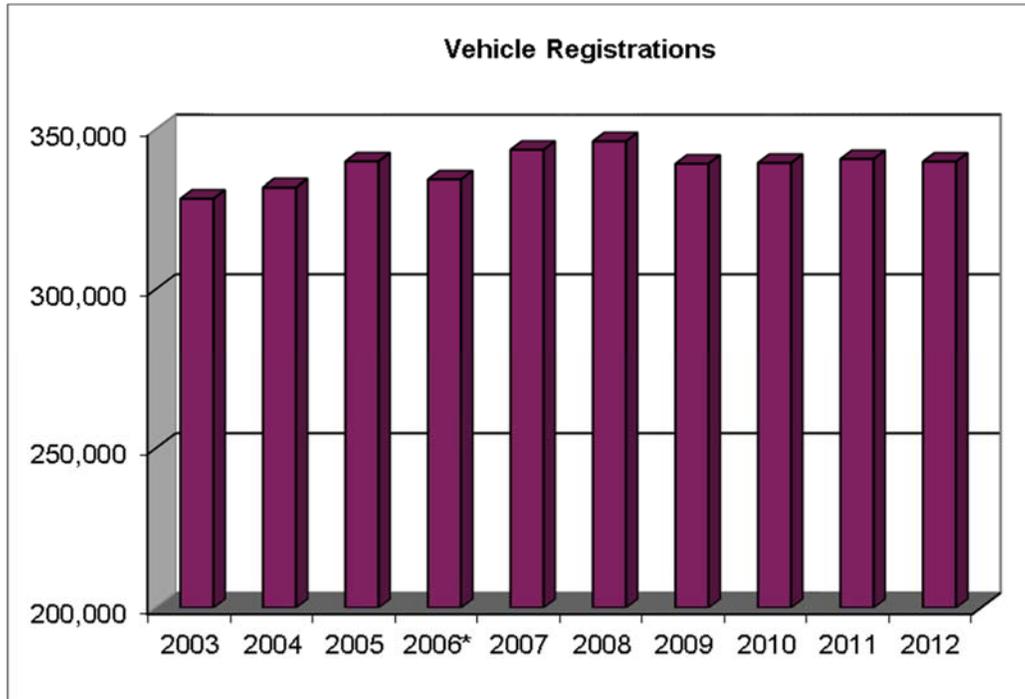
**Santa Barbara County Civilian Employment -  
Last Ten Calendar Years**



Year	Farm	Mining and Construction	Durable and Nondurable Goods	Information, Transportation, Warehousing and Utilities	Retail and Wholesale Trade	Financial, Professional and Business Services	Educational and Health Services	Leisure and Hospitality	Other Services	Public Sector	Total Wage and Salary
2003	16,200	9,400	13,400	7,000	24,400	29,500	19,300	21,700	5,800	35,600	182,300
2004	16,000	10,500	13,300	6,900	24,700	30,600	19,600	21,900	5,600	35,900	185,000
2005	16,300	11,000	13,500	7,100	25,000	31,400	19,400	22,400	5,700	36,400	188,200
2006	15,500	11,600	13,600	7,200	25,300	30,900	19,400	23,000	5,800	36,000	188,300
2007	15,900	11,700	13,300	7,000	25,100	30,700	20,300	22,700	5,900	37,000	189,600
2008	16,900	10,800	13,100	6,900	24,600	30,500	20,700	23,000	6,000	37,400	189,900
2009	18,300	8,600	11,800	6,600	22,900	28,300	20,600	22,100	5,500	37,700	182,400
2010	18,700	8,000	11,200	6,200	21,900	28,000	20,900	22,000	5,400	38,100	180,400
2011	18,200	7,900	8,800	6,400	21,800	30,700	21,500	22,100	5,200	37,800	180,400
2012	19,100	8,100	8,800	7,000	22,500	31,800	21,900	22,700	5,200	37,800	184,900

Source:  
California Employment Development Department (EDD)

**Fee-Paid Vehicle Registrations and Fees Collected  
(Automobiles and Light Trucks) for Santa Barbara County -  
Last Ten Fiscal Years**



Fiscal Year	Vehicle Registrations	Registration Fees
2003	328,435	1,313,739
2004	331,898	1,327,591
2005	339,983	1,397,340
2006*	334,324	1,995,966
2007	343,633	2,051,539
2008	346,298	2,067,453
2009	339,244	2,025,336
2010	339,496	2,026,839
2011	340,725	2,034,178
2012	339,915	2,029,342

\* Adopted additional \$2 DMV registration fee.

Source:  
Santa Barbara County Air Pollution District Audited Fee Revenues

**Demographic and Miscellaneous Statistics**

<i>District Established:</i>	September 14, 1970 with Santa Barbara County Board of Supervisors resolution 70-581
<i>Area Covered:</i>	2,774 square miles
<i>County &amp; Cities Included:</i>	Santa Barbara County and the cities of Buellton, Carpinteria, Goleta, Guadalupe, Lompoc, Santa Barbara, Santa Maria, and Solvang
<i>Population:</i>	427,267 (as of January 1, 2012)
<i>Transportation:</i>	Railroads: the Union Pacific and passenger services by Amtrak's Pacific Surfliner  Two commercial Airports: Santa Barbara Airport and Santa Maria, with connecting services to many international airports.  Freeways: U.S. 101 and six State highway routes 1, 135, 154, 166, 217, and 246
<i>Visitor Destinations:</i>	Santa Barbara Mission, Santa Barbara Harbor, Historic Downtown Santa Barbara, La Purisma Mission, Murals in Lompoc, Chumash Casino, Wine Country, Lake Cachuma, Beaches, State Parks, and National Forests
<i>Registered Vehicles:</i>	339,915 (in Fiscal Year 2011-12)
<i>Average Total Daily Miles Traveled:</i>	10.1 million (from a 2005 study)
<i>Average Daily Vehicle Miles Traveled:</i>	31.9 (from a 2000 study)
<i>Average Trip Length:</i>	9.2 (from a 2000 study)
<i>Stationary Sources of Air Pollution Regulated:</i>	Oil and Gas Production Facilities, Offshore Oil and Gas Production Facilities, Manufacturing Facilities, Mining Operations, Sand & Gravel Production, Government Military Installations, Dry Cleaning, Gas Stations, Paint Spray Booths, and Agricultural Water Pump Engines
<i>Permitted or Registered Stationary Facilities:</i>	1,041 Small, Medium, and Large
<i>Number of Air Monitoring Stations:</i>	18
<i>Full-time Positions for 2010-11:</i>	55.25 are authorized and 50.25 are funded.
<i>Full-time Positions for 2011-12:</i>	55.50 are authorized and 50.25 are funded.
<i>Adopted 2012-13 Budget:</i>	\$9,158,240
<i>Key Federal, State, and Local Air Agencies:</i>	EPA Region IX (Environmental Protection Agency), CARB (California Air Resources Board) and 35 local air pollution control districts in California.