



Agenda Date: January 17, 2019
Agenda Placement: Admin
Estimated Time: N/A
Continued Item: No

Board Agenda Item

TO: Air Pollution Control District Board

FROM: Aeron Arlin Genet, Air Pollution Control Officer 

CONTACT: Kristina Aguilar, Administrative Manager (805-961-8813)

SUBJECT: APCD Fiscal Year 2017-18 Financial Audit

RECOMMENDATION:

Receive and file the attached:

1. Fiscal Year 2017-18 APCD *Comprehensive Annual Financial Report (CAFR)*, also containing the *Independent Auditor's Report*;
2. The Independent Auditor's *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*; and
3. The Independent Auditor's *Report to the Board of Directors and Management*.

DISCUSSION:

Each year, financial statements must be prepared reporting on the APCD's financial status and then audited by an independent accounting firm employing certified public accountants (CPAs). In addition, the APCD must undertake a federally mandated "Single Audit" any fiscal year the APCD expends more than \$750,000 of federal funds and issue a report as a result of that audit.

As part of the audit of the APCD's financial status (the financial audit) the accounting firm must issue two supplemental reports: 1) an *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters*, and 2) a *Report to the Board of Directors and Management* communicating other pertinent matters related to the audit of the financial statements.

2017-18 Comprehensive Annual Financial Report (CAFR)

The attached CAFR was prepared by the APCD Fiscal Division, under the direction of APCD management. The independent accounting firm Bartlett, Pringle & Wolf, LLP (auditors) prepared the included *Independent Auditor's Report*. The auditors found that our financial statements are presented fairly, in all material respects.

Single Audit Reports

Federal expenditures were \$495,000 which was below the \$750,000 threshold in fiscal year 2017-18, therefore a federally mandated "Single Audit" was not required, and no report was issued.

Report on Internal Control and Compliance

As part of the audit, and in accordance with Government Auditing Standards, the auditors considered the APCD's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters and issued the attached *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. The auditors did not identify any deficiencies in internal controls over financial reporting that would be considered to be a material weakness, and did not find any instances of noncompliance that are required to be reported.

Report to the Board of Directors and Management

The attached *Report to the Board of Directors and Management* was prepared by the auditors outlining other matters that do not rise to the level of reporting required in the other reports, but that are determined to be of interest to the Board and management and require formal communication.

ATTACHMENTS:

- A. Fiscal Year 2017-18 APCD *Comprehensive Annual Financial Report (CAFR)*, also containing the *Independent Auditor's Report*
- B. Fiscal Year 2017-18 *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*
- C. Fiscal Year 2017-18 *Independent Auditor's Report to the Board of Directors and Management*

ATTACHMENT A

Fiscal Year 2017-18
APCD Comprehensive Annual Financial Report (CAFR),
also containing the
Independent Auditor's Report

January 17, 2019

Santa Barbara County Air Pollution Control District
Board of Directors

260 San Antonio Road, Suite A
Santa Barbara, California 93110



COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR 2017-18

Santa Barbara County Air Pollution Control District
260 North San Antonio Road, Suite A, Santa Barbara, CA 93110
805-961-8800 • www.ourair.org

Aeron Arlin Genet
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.

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260 North San Antonio Road, Suite A • Santa Barbara, CA • 93110 • 805.961.8800
OurAir.org • twitter.com/OurAirSBC

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

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

Fiscal Year Ended June 30, 2018

Prepared by:

The Fiscal Section of the Santa Barbara County Air Pollution Control District
Kristina Aguilar, CPA, Administrative Manager

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INTRODUCTORY SECTION

LETTER OF TRANSMITTAL

January 4, 2019

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, 2018.

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.

Bartlett, Pringle & Wolf, LLP, a firm of licensed certified public accountants, has issued an unmodified ("clean") opinion on the APCD's financial statements for the fiscal year ended June 30, 2018. 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, 2018 because expenditures of federal funds were less than the \$750,000 threshold. Therefore, there will not be a 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.

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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, 2018.

Supervisor Das Williams

First District
Santa Barbara County Board of Supervisors

Mayor Holly Sierra

Alternate – Councilmember Ed Andrisek
City of Buellton

Supervisor Janet Wolf

Second District
Santa Barbara County Board of Supervisors

Councilmember Al Clark

Alternate – Vice Mayor Wade Nomura
City of Carpinteria

Supervisor Joan Hartmann

Third District
Santa Barbara County Board of Supervisors

Councilmember Michael T. Bennett

Alternate – Councilmember Roger Aceves
City of Goleta

Supervisor Peter Adam

Fourth District
Santa Barbara County Board of Supervisors

Mayor John Lizalde, Vice-Chair

Alternate – Mayor Pro Tem Ariston Julian
City of Guadalupe

Supervisor Steve Lavagnino, Chair

Fifth District
Santa Barbara County Board of Supervisors

Councilmember James Mosby

Alternate – Councilmember Jenelle Osborne
City of Lompoc

Mayor Cathy Murillo

Alternate – Councilmember Jason Dominguez
City of Santa Barbara

Mayor Alice Patino

Alternate – Councilmember Etta Waterfield
City of Santa Maria

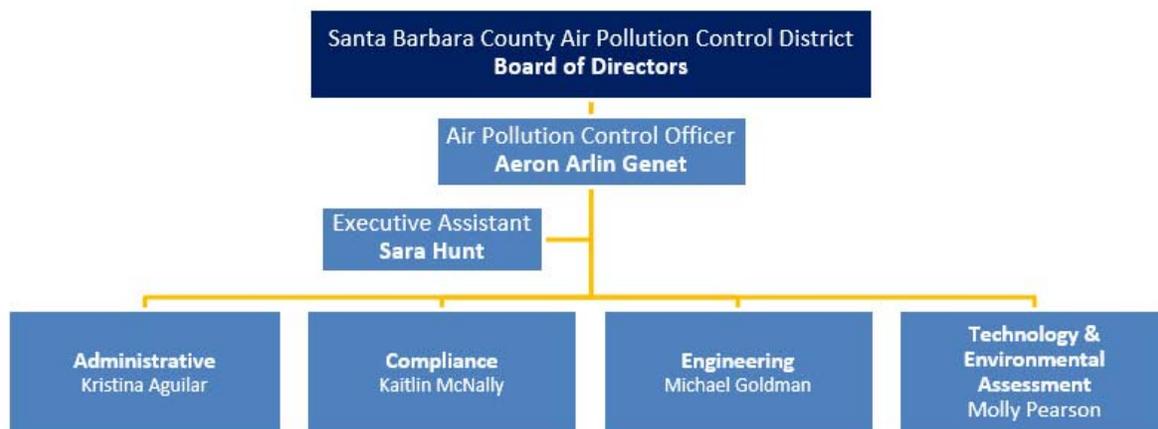
Mayor Jim Richardson

Alternate, Mayor Pro Tem Joan Jamieson
City of Solvang

ORGANIZATION CHART

The APCD, with 43.00 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, 2018.



- | | | | |
|---|---|---|--|
| <ul style="list-style-type: none"> • Air Monitoring • Applications/ Database • Data Acquisition System • Information Technologies • Network & Security • Facilities • Fiscal • Budget • Payroll • Human Resources • Personnel Management • Benefits | <ul style="list-style-type: none"> • Compliance Response • Enforcement • Inspections • Violation Settlement • Agricultural Burning • County SSRRC Assistance • Asbestos Demolition & Renovation • Compliance Safety & Training • Hearing Board | <ul style="list-style-type: none"> • Permitting • Engineering Analysis and Support • GIS Applications • Federal Title V Permits • Agricultural Engine Registration • Emissions Testing • Source Registration and ERCs • Air Toxics • CEMS Program • Air Quality Monitoring • OCS Permitting • Public Records Act Requests | <ul style="list-style-type: none"> • Business Assistance/ Green Business • Clean Air Planning/ Inventory • Technology/Grant Programs • Rule Development • CEQA and Land Use Review • Public Information Office • Community Assistance • Communications • Transportation • Community Advisory Council • Special Air Quality Initiatives • School Programs |
|---|---|---|--|

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, incentives, and social responsibility.
- 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 consistent compliance program, with emphasis on educating the regulated community.
- Ensure a contribution by all emission sources toward emission reductions.
- Use penalties to act as a deterrent and to place emphasis on compliance.

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

Objectives:

- Place a high priority on staff training and professional advancement.
- Base decisions on well-documented data that has been subject to critical and open review.
- Maintain a sound and ever-improving emission inventory and air quality monitoring system.
- Maintain and update the Ozone Plan using the latest data and control techniques.
- Use the best available resources in developing programs, rules, and permit analyses.

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.

The APCD’s mission is to protect the people and the environment of Santa Barbara County from the effects of air pollution.

Goal: Ensure adequacy of resources.

Objectives:

- Continue to streamline and improve efficiency by taking advantage of technological advances and continuously reviewing systems and reviewing tasks for process improvements.
- Broaden the District funding base by actively pursuing additional sources of revenue.
- Continue to review our financial status by developing new tracking mechanisms to ensure financial stability.

Priority 2: Community Involvement

Goal: Involve the community in air quality protection.

Objectives:

- Initiate collaborative efforts and partnerships with the community around shared air quality and environmental goals.
- Offer timely information on air quality issues and upcoming events via the District's website and social media.
- Provide the public with additional informational resources, including presentations and publications.
- Support the District 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.
- Reach out to community partners and the media for additional opportunities to inform the public.
- Support students and teachers in efforts to learn about air quality and the environment.

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.

DIVISION RESPONSIBILITIES

Engineering Division staff: issues permits, and works with businesses to help them comply with permits; 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.

Compliance Division staff: provides initial and ongoing inspection and enforcement services to applicants and operators of stationary sources of air pollution. Perform random surveillance activities; reply to public nuisance complaints regarding odors, smoke and dust; implement the federal Asbestos program; inspect equipment under the Statewide Portable Equipment Registration Program (PERP); inspect our local agricultural engine registrations; and in coordination with Santa Barbara County Fire, implement our burn programs (e.g., agricultural burns, prescribed burns).

Technology and Environmental Assessment Division staff: compiles countywide emissions inventory; 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 Administrative division includes administrative overhead, fiscal and executive services, human resources, information technology section, and air monitoring.

OUR AIR QUALITY

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.

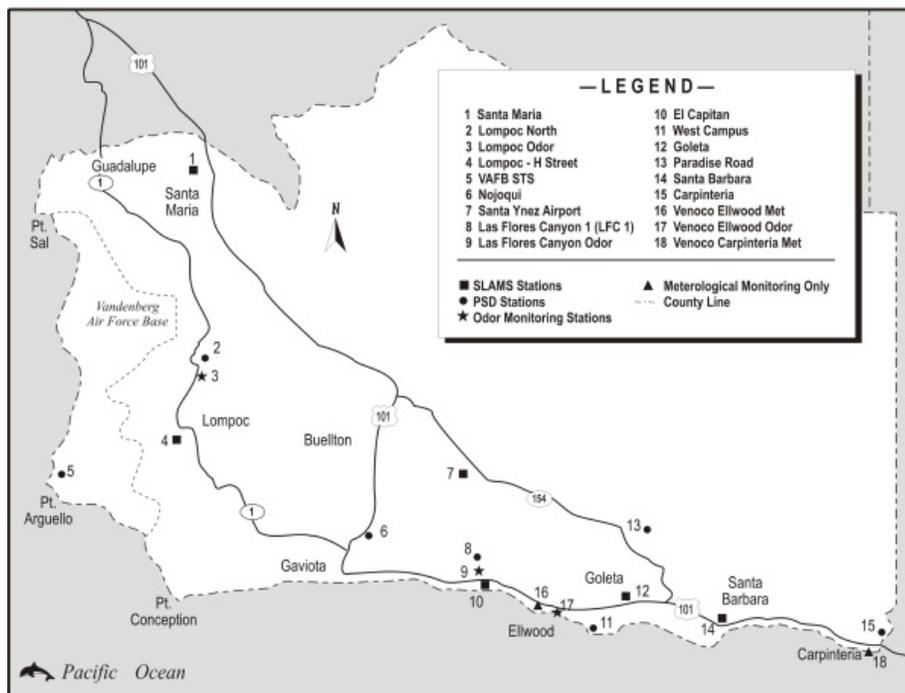
Santa Barbara County's air quality has historically violated both the state and federal ozone standards. Ozone concentrations above these standards adversely affect public health, diminish the production and quality of many agricultural crops, reduce visibility, and damage native and ornamental vegetation.

In 1970, when the APCD was formed, the air in Santa Barbara did not meet the federal one-hour ozone standard. For 30 years, our efforts focused on attaining that standard. On August 8, 2003, Santa Barbara County was officially designated an attainment area for the federal one-hour ozone standard. Furthermore, United States Environmental Protection Agency (USEPA)

has designated Santa Barbara County as “attainment” for the federal eight-hour ozone standard (0.075 parts per million). The eight-hour standard replaced the previous federal one-hour standard. In addition, we attained the state one-hour ozone standard for the first time during 2004-2006. On December 28, 2015, the USEPA strengthened the federal eight-hour ozone standard to 0.070 ppm. The USEPA has not yet finalized their determination for that standard; a final decision is expected in the spring of 2018. Based on data collected from 2014-2016, we will meet the new standard and be classified as attainment for this National Ambient Air Quality Standard.

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 PM₁₀ (particulate matter of 10 micrometers or less). The number of ozone exceedance days has decreased while population has increased. Because the number of ozone exceedance days has decreased and the County is getting closer to meeting the California eight-hour standard, the attainment status for this standard has changed from nonattainment to nonattainment-transitional.

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. This budget is available at <http://www.ourair.org/apcd/our-budget/>.

Unforeseen Circumstances/Large Source Files For Bankruptcy - In mid-April, a large oil and gas source that operated multiple facilities in Santa Barbara County quitclaimed two state land leases to the State Lands Commission and filed bankruptcy to liquidate existing assets. These actions will result in a short-term decommissioning of the sources and a long-term permanent shutdown. This unforeseen activity will have significant implications to revenues received, resulting in a projected shortfall of several thousand dollars. In FY 2017-18, to accommodate for the anticipated reduction in revenue from this source, excess revenue typically collected during a high-year reevaluation cycle will be used for District operations versus moved into fund balance. We will continue monitoring the situation to determine if additional budgetary adjustments are needed to ensure sufficient revenue is available to cover all expenditures.

One-Time Pass-Through Grant Funds For School Buses - The District expects to receive an additional \$619,975 of funds from the State Reserve Project solicitation under the Year 19 Carl Moyer Program. The solicitation funds are allocated for school buses that must comply with the Statewide Truck and Bus Regulation. The District worked with CARB and local school districts to identify which buses qualified for funding and was successful in applying for funding to replace six buses during the next year. This one-time revenue source will provide an additional \$542,478 in school bus project funds, and \$77,497 in administration funds to implement the grant program.

Plains All American Pipeline Shut Down - On May 19, 2015, Plains All American 901 pipeline ruptured and spilled as much as 3,400 barrels of crude oil at Refugio State Beach. This event has resulted in significant shut down of oil and gas facilities that were dependent on the onshore pipeline to distribute product outside of Santa Barbara County. Sources such as ExxonMobil, FreeportMcMoRan and Venoco have all ceased production activity due to the pipeline shut down, this resulted in reduced annual emission fees, source testing, monitoring fees and reimbursable fees. Through FY 2017-18, the APCD has a cumulative loss of revenue of approximately \$509,000. For FY 2018-19, the District anticipates a total projected loss of revenue of \$25,000, which is an aggregate loss of \$534,000 since the pipeline rupture.

Retirement Costs – Over the last ten years the District's contribution to retirement planning has increased by more than 73%. For FY 2017-18 the District contribution rates for each tier is increasing on average 3.855%. The District implemented PEPRA, which impacts new employees who were hired beginning January 1, 2013. Currently we have over 20% of our work force enrolled in the new PEPRA retirement tier, which will result in incremental savings with each new employee until all employees are eventually enrolled.

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 2017-18 was 2.2% 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.

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 ups and downs of the economy. If any large regulated sources close their doors because of a downturn in the economy, it could cause a financial burden to the District due to a reduced revenue stream.

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, 2018 is \$8,467,349 (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 \$100,000,000 with a deductible of \$10,000.

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, Bartlett, Pringle & Wolf, 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,



Aeron Arlin Genet
Air Pollution Control Officer



Kristina Aguilar
Administrative Manager

FINANCIAL SECTION

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INDEPENDENT AUDITORS REPORT



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Santa Barbara County Air Pollution Control District (APCD) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 the major fund of the Santa Barbara County Air Pollution Control District as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note XIV to the basic financial statements, Santa Barbara County Air Pollution Control District has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year ending June 30, 2018. The adoption of this standard required retrospective application resulting in a \$854,018 reduction of net position as of July 1, 2017. Our opinion is not modified with respect to this matter. Because all of the information required to restate the prior year was not available at the time the financial statements were available to be issued, prior year values are not presented in a comparable manner.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 20 through 32, the General Fund - Budgetary Comparison Schedule on pages 66 and 67, the Santa Barbara County Employees' Retirement System Schedule of the APCD's Proportionate Share of the Net Pension Liability on page 68, the Santa Barbara County Employees' Retirement System Schedule of the APCD's Pension Contributions on page 68, and the Santa Barbara County Employees' Retirement System Schedule of the APCD's Changes in the Net OPEB Liability and Related Ratios on page 69; 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise APCD's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and statistical section 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 or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2019 on our consideration of APCD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering APCD's internal control over financial reporting and compliance.

Bartlett, Pringh + Wolf, LLP

January 4, 2019
Santa Barbara, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited) As of June 30, 2018

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, 2018. 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

New Significant Accounting Standards Implemented

For the year ended June 30, 2018, the District implemented the following Governmental Accounting Standards Board (GASB) Pronouncement:

Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits (OPEB) Other Than Pensions replaces the requirements of Statement 45 and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. This Statement is effective for periods beginning after June 15, 2017. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions and improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of the GASB Statement No. 75 did have an impact on the District's financial statements for the fiscal year ended June 30, 2018, see Note XII- Other Postemployment Benefit other than Pension and Note XIV – Prior Period Adjustments.

Statement No. 85 Omnibus 2017, addresses practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Future Governmental Accounting Standards Board (GASB) Statements

The Governmental Accounting Standards Board Statements listed below will be implemented in future financial statements. These statements will be evaluated by the District to determine if they will have a material impact to the financial statements once effective.

Statement No. 83	<i>"Certain Asset Retirement Obligations"</i>	The requirements of this statement are effective for periods beginning after June 15, 2018. (FY 18/19)
Statement No. 84	<i>"Fiduciary Activities"</i>	The requirements of this statement are effective for periods beginning after December 15, 2018. (FY 19/20)
Statement No. 87	<i>"Leases"</i>	The requirements of this statement are effective for periods beginning after December 15, 2019. (FY 20/21)

Government-wide Financial Analysis

The liabilities of the APCD exceeded its assets at the close of the most recent fiscal year by \$155,038 (*net position*):

- \$477,464 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*).
- (\$632,502) represents (*unrestricted*) net position, which may be used to finance the APCD’s day-to-day operations without constraints established by legal requirements.

The APCD’s total net position decreased by \$1,338,099 (or 113.1%) over the prior year:

- A \$83,258 increase in net position 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 on page 24.
- A \$1,421,357 decrease in unrestricted net position is the change in resources available to fund APCD programs and obligations. \$854,018 of this decrease is due to a prior period adjustment as a result of adopting a new accounting standard, which is mentioned on page 20 and discussed further on page 25.

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 \$8,403,515. This amount represents entirely the amount of the General Fund and an increase of 2.3%, or \$189,098 from the prior year. Of that amount, approximately 99.8% or \$8,389,029 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 \$83,258 (or 21.1%) to \$477,464. During the fiscal year, the APCD purchased new accounting software, eight pieces of equipment, one vehicle, and disposed of fourteen pieces of equipment and two vehicles. The APCD recorded depreciation of \$128,761 against its assets. No long term debt currently exists related to capital assets.

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

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

The APCD's government-wide financial statements are presented on pages 34 and 36, 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 33 and 35 of this report display the governmental funds financial statements.

The reconciliation between the *total fund balances* can be found on page 34 and the reconciliation of the *total change in fund balances* for all governmental funds to the *change in net position* can be found on page 36.

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 66 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 37, 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 position 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 \$9,563,762 and deferred outflows of \$5,048,547 which was less than the total of liabilities of \$13,297,599 and deferred inflows of \$1,469,748 by \$155,038.

Information in the Management's Discussion and Analysis section is not covered by the Independent Auditors' report, but is presented as required supplementary information for the benefit of the

Analysis of Net Position

The APCD's total net position decreased by \$1,338,099, or 113.1%, during the fiscal year. As described below, the APCD experienced an increase in the invested in capital assets, net of related debt category, while experiencing a decrease in the unrestricted category.

A summary of net position is as follows:

SUMMARY OF NET POSITION

	Governmental Activities		Changes	
	June 30, 2018	June 30, 2017	Dollar	Percent
Current and other assets	\$ 9,086,298	\$ 9,573,495	\$ (487,197)	-5.1%
Capital assets	477,464	394,206	83,258	21.1%
Total assets	<u>9,563,762</u>	<u>9,967,701</u>	<u>(403,939)</u>	<u>-4.1%</u>
Deferred outflows of resources	5,048,547	4,123,268	925,279	22.4%
Current and other liabilities	13,297,599	11,843,065	1,454,534	12.3%
Total liabilities	<u>13,297,599</u>	<u>11,843,065</u>	<u>1,454,534</u>	<u>12.3%</u>
Deferred inflows of resources	1,469,748	1,064,843	404,905	38.0%
Net Position:				
Invested in capital assets, net of related debt	477,464	394,206	83,258	21.1%
Unrestricted	(632,502)	788,855	(1,421,357)	-180.2%
Total net position	<u>\$ (155,038)</u>	<u>\$ 1,183,061</u>	<u>\$ (1,338,099)</u>	<u>-113.1%</u>

The components of total net position 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, equals the APCD's investment in capital assets (net of accumulated depreciation) at June 30, 2018 and comprises \$477,464 of the APCD's net position. (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 APCD's investment in capital assets includes large furniture purchases for the two offices, vehicles, and equipment for air monitoring, testing, and data collection.

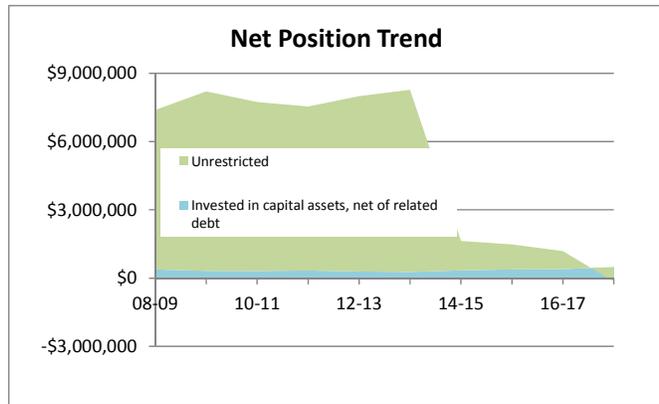
The increase in net position that is invested in capital assets, net of related debt, of \$83,258 represents capital acquisitions, less current year depreciation and dispositions.

Unrestricted Net Position

The remaining (\$632,502) component of the APCD's net position is unrestricted. Some of the 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 position decreased \$1,421,357, or 180.2% from the previous year from \$788,855 to \$(632,502). The chart at right provides the change in Net Position from the prior years and Net Position trend:



As of June 30, 2015 the APCD had to report its portion of the net pension liability within the Santa Barbara County Retirement System. As of June 30, 2018, the APCD had to report its portion of the net OPEB liability within the Santa Barbara County Retirement System.

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.

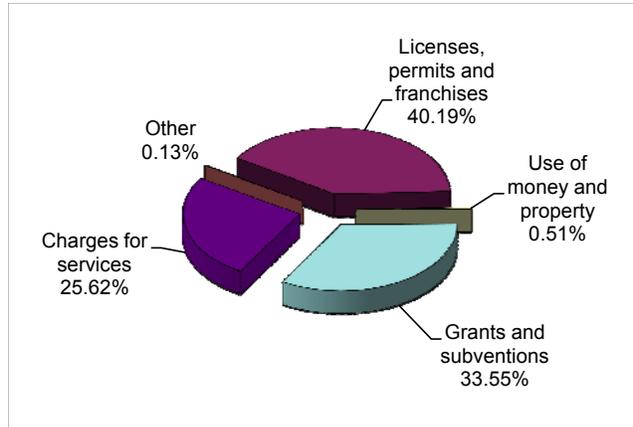
The following table shows the revenue, expenses, and changes in net position:

CHANGES IN NET POSITION

	Governmental Activities		Changes	
	June 30, 2018	June 30, 2017	Dollar	Percent
Revenues:				
Licenses, permits, and franchises	\$ 3,773,661	\$ 3,229,432	\$ 544,229	16.9%
Use of money and property	47,653	31,626	16,027	50.7%
Grants and subventions	3,150,516	3,174,081	(23,565)	-0.7%
Charges for services	2,405,868	1,715,408	690,460	40.3%
Other	12,421	7,788	4,633	59.5%
Total Revenues	<u>9,390,119</u>	<u>8,158,335</u>	<u>1,231,784</u>	<u>15.1%</u>
Expenses:				
Air pollution control services:				
Salaries and benefits	6,005,415	5,793,513	211,902	3.7%
Services and supplies	3,586,993	2,389,598	1,197,395	50.1%
Other Expenses	153,031	154,880	(1,849)	-1.2%
Depreciation	128,761	118,033	10,728	9.1%
Total Expenses	<u>9,874,200</u>	<u>8,456,024</u>	<u>1,418,176</u>	<u>16.8%</u>
Deficiency of revenues over expenses	(484,081)	(297,689)	(186,392)	62.6%
Net Position:				
Net position - beginning	1,183,061	1,480,750	(297,689)	-20.1%
Prior period adjustment	(854,018)	-	(854,018)	-100.0%
Net position - beginning, as restated	<u>329,043</u>	<u>1,480,750</u>	<u>(1,151,707)</u>	<u>-77.8%</u>
Net position - ending	<u>\$ (155,038)</u>	<u>\$ 1,183,061</u>	<u>\$ (1,338,099)</u>	<u>-113.1%</u>

Revenues

Revenues for the APCD's governmental activities had an overall increase of 15.1% from the prior year. All of the revenues of the APCD were for air pollution control services and total \$9,390,119 for the year ending June 30, 2018 and \$8,158,335 for the year ending June 30, 2017. The chart to the right provides APCD revenues by object level as of June 30, 2018.



For the year ending June 30, 2018, 87.2% or \$8,187,622 of APCD revenues are fee-based, and a chart and table on page 74 of the Statistical Section provide a breakdown of those fees. It is important to note that DMV automobile registration fees of \$2,257,103 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 \$1,202,497, 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 \$544,229 (16.9%) over the previous year, primarily due to a \$80,202 increase in evaluation fees; a \$368,928 increase in re-evaluation fees; and an increase of \$84,312 in notice of violation fees.

Use of Money and Property increased \$16,027 (50.7%) due to recognizing interest of \$100,459, which was \$42,349 more than the prior year. This was offset by an unrealized loss of \$52,806, which was \$26,322 less than the unrealized loss from FY 2016-17.

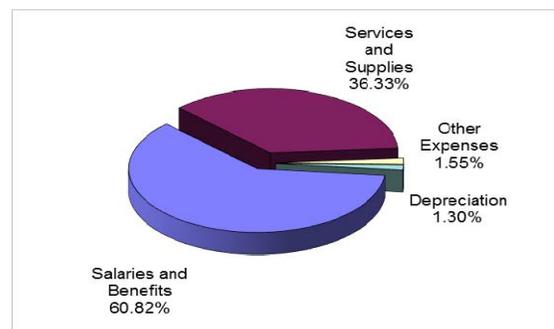
Grants and Subventions decreased \$23,565 (0.7%) primarily due to the grant monies received from the California Energy Commission concluding in FY 2016-2017.

Charges for services increased \$690,460 (40.3%) primarily due to an increase in reimbursable services of \$69,225, and an increase in Carl Moyer program revenue of \$621,071.

Charges for services increased \$690,460 (40.3%) primarily due to an increase in reimbursable services of \$69,225, and an increase in Carl Moyer program revenue of \$621,071.

Expenses

All of the expenses of the APCD were for air pollution control services and total \$9,874,200 for the year ending June 30, 2018 and \$8,456,024 for the year ending June 30, 2017. The chart to the right provides APCD expenses by object level as of June 30, 2018.



Salaries and benefits comprise 60.82% of the APCD's expenses at \$6,005,415. Salaries and benefits increased \$211,902 (3.7%) over the prior year primarily due to an adjustment relating to the net pension liability and was offset by a decrease in regular salaries.

Services and supplies comprise the second largest portion of the APCD's expenses at 36.33% or \$3,586,993. Services and supplies increased \$1,197,395 (50.1%) over the prior year primarily because of a an increase in DMV \$2 Program of \$182,975 and an increase in ITG/Carl Moyer Program of \$708,615.

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 \$8,403,515, an increase of \$189,098 (or 2.3%) 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 91.2%. 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 \$1,149,699, \$510,102 is restricted to the DMV \$2 program, \$189,897 is restricted to the Carl Moyer program, both as part of legislation with very restrictive spending limitations. Finally, \$449,700 is restricted to the DMV \$4 program.

Committed

Of the \$7,239,330, \$550 is in the form of imprest, or petty, cash and is kept on hand, as opposed to in the bank. \$249,867 is committed to ITG projects as part of mitigation agreements with broad spending parameters. \$664,458 is committed to monitoring activities, \$591,472 to data acquisition system activities, and \$698,174 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. \$800,000 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. \$2,082,409 is committed to operational activities for fiscal prudence in managing the budgetary condition of the APCD, and \$652,400 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 \$477,464 (net of accumulated depreciation of \$1,542,237) at June 30, 2018 representing an increase of \$83,258 (or 21.1%) over the prior year. This investment in capital assets includes furniture, laboratory equipment, air monitoring stations, computer and office equipment, leasehold improvements and APCD vehicles, which are mostly hybrid vehicles.

The additions to capital assets reflect the purchase new accounting software, eight pieces of equipment and one vehicle. The vehicle was purchased during the fiscal year to replace older vehicles within the APCD's fleet, and the monitoring equipment and accounting software were purchased to continue to maintain a superior level of technology in that area of expertise.

The deletions of capital assets reflect the disposal of two analyzers, twelve pieces of monitoring equipment, and two vehicles. 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. In this case, both vehicles were auctioned off by a third party. The revenue from the sale of the vehicles was included in the statement of activities and totaled \$11,761.

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

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

Deferred Outflows of Resources

This classification balance, although similar to “assets,” is set apart because these items do not meet the technical definition of being an APCD asset on the date of these financial statements. In other words, these amounts are not available to pay liabilities in the way assets are available. When all the recognition criteria are met, the deferred outflow of resources will become an expense/expenditure.

The most significant deferred outflow of resources reported are related to the implementation of GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting, as well as GASB Statement No. 75 for postemployment benefits other than pensions (OPEB) reporting. Consequently, the majority of the deferred outflows of resources reported are comprised of current year contributions to the retirement system. However, there may be some deferred outflows of resources attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience (see Note XI and XII for more information on deferred outflows of resources and deferred inflows of resources).

Deferred Inflows of Resources

Deferred inflows of resources are the counterpart to deferred outflows of resources on the Statement of Net Position. Deferred inflows of resources are not technically liabilities of the APCD as of the date of the financial statements. When all the recognition criteria are met, the deferred inflow of resources will become revenue or an increase to net position.

Deferred inflows of resources related to pensions represent a net amount attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience (see Note XI and XII for more information on deferred outflows of resources and deferred inflows of resources).

GENERAL FUND BUDGETARY HIGHLIGHTS

A General Fund Budgetary Comparison Schedule can be found on page 66 that compares fiscal year 2017-18 amended budget to the adopted budget. This supplemental schedule reflects no change in total budgeted revenues and no change in total budgeted expenditures.

Changes from Original to Final Budgeted Amounts

A use of prior year fund balance of \$1,665,445 was budgeted for fiscal year 2017-2018, and by the end of the fiscal year, \$189,098 was actually contributed to the fund balance. This resulted in a positive variance of \$1,854,543 between the final 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 – an unanticipated evaluation fee was submitted during the fiscal year, in addition to a significant increase in the use of diesel generators that resulted in an increase in evaluation fee revenue in excess of budget by \$121,165. Also, a large oil and gas source paid a prior year large annual emission fee which was not anticipated and therefore annual emission fee revenue was in excess of budget by \$89,697. Current year re-evaluation fees trended with the previous cycles high year, and accordingly, this resulted in revenues in excess of budget by \$172,513. All of these contributed to the surplus of \$515,897 in this revenue category.

Use of Money and Property – Interest income during the current year was \$100,459, which was offset by unrealized losses of \$52,806. The Use of money and property came in in excess of budget by \$7,653.

Grants and Subvention – DMV \$2 and \$4 revenue was \$20,497 less than budgeted. This was offset by a \$90,000 grant from the California Air Resources Board in April 2018 that was not factored into the current year budget as the outcome was unknown. These two changes are primarily responsible for the total excess of \$61,316.

Charges for Services – Reimbursable labor was higher than anticipated, by approximately 9% as a result of unanticipated decommissioning work during the current year. This increase comprises the majority of the excess of \$90,150 for this revenue category.

Other Revenue – The other revenue line item came in in excess of budget of \$10,421 primarily due to the gain from the sale of two vehicles during the year.

Expenditures

Salaries and Benefits – were \$406,507 lower than budgeted as a result of salary savings from multiple vacant positions that were unfilled during the fiscal year. This also resulted in benefits expenditures being less than budgeted in the amount of \$138,582. These decreases comprise the majority of the decrease of \$536,622 in this expenditure category.

Services and Supplies – were \$539,835 lower than originally budgeted primarily due to less expenditures outside of passthrough specifically for professional services, as well as continued focus on reducing expenditures when possible.

Other Expenses – were \$12,168 lower than budgeted due to unchanged motor pool charges and liability insurance premiums from prior year.

Capital Outlay – was \$80,481 lower than budgeted primarily due to the accounting software 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 2018-19.

Revenues

- The FY 2018-19 budget contains a 3% 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.
- We are entering the low-year in the three-year re-evaluation cycle in FY 2018-19. Compared to FY 2017-18 fees of \$1,034,390, FY 2018-19 adopted amount is \$870,869, or a \$163,521 decrease.
- Grants and subventions, under the Carl Moyer Program, continue to benefit from the state taking action in 2017 to increase funding for voluntary emission reduction programs for Carl Moyer Program projects. This action resulted in an increase of \$1,368,174 for local projects. The District also expects to receive an additional \$250,000 of funds for the implementation of a Wood Smoke Reduction Program to assist with the replacement of residential woodstoves and fireplaces with natural gas burning devices. These one-time revenue sources will provide an additional \$155,272 in administration funds to implement the grant program.
- The Federal grant from EPA is anticipated to be \$489,000 which is slightly higher than the prior years.

Expenditures

- Salaries and benefits decreased by approximately \$175,000 primarily due to the anticipated decrease in headcount and related lower levels of benefits for the upcoming year. This decrease mentioned above is net of a cost of living adjustment will be given on September 10, 2018.
- Services and supplies increased by \$957,229, but \$777,148 of this increase represents passthrough expenditures that are fully paid for by funding received.
- For FY 2018-19 the District budget includes three large one-time projects. The first one-time budget item is associated with transitioning the office further into a paperless environment, and electronically archiving Engineering Division files. This project, which we plan to out-source, is estimated to cost approximately \$65,000. The second large project is an expanded use of Low Cost Air Sensors, including a \$50,000 investment to expand the network of personal sensors countywide. Lastly, a one-time expenditure of \$50,000 is planned to expand District brand awareness, revamp the District's logo, and revise the navigation tools within the District's website.

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

Air Pollution Control District
Attn: Administrative Manager
260 N. San Antonio Road, Suite A
Santa Barbara, CA 93110

This report may be downloaded from the web at:

<http://www.ourair.org/apcd/comprehensive-annual-financial-report/>.



BASIC FINANCIAL STATEMENTS

BALANCE SHEET AND STATEMENT OF NET POSITION

As of June 30, 2018

	General Fund	Adjustments (1)	Statement of Net Position
Assets			
Cash (note III)	\$ 8,023,529	\$ --	\$ 8,023,529
Receivables:			
Accounts, net	585,433	--	585,433
Interest	30,718	--	30,718
Employee	2,248	--	2,248
Current assets	8,641,928	--	8,641,928
OPEB assets (note XII)	--	-	--
Restricted cash and investments (note IV)	444,370	--	444,370
Capital assets, net of accumulated depreciation (note V)	--	477,464	477,464
Total assets	\$ 9,086,298	\$ 477,464	\$ 9,563,762
Deferred outflows of resources			
Deferred pensions (note XI)	--	4,850,791	4,850,791
Deferred OPEB (note XII)	--	197,756	197,756
Total deferred outflow of resources	--	5,048,547	5,048,547
Liabilities			
Accounts payable	\$ 64,033	\$ --	\$ 64,033
Salaries and benefits payable	174,380	--	174,380
Employee compensated absences (note VIII)	--	323,650	323,650
Current liabilities	238,413	323,650	562,063
Permit holders payable (note IV)	444,370	--	444,370
Net OPEB Liability (note XII)	--	157,119	157,119
Net Pension Liability (note XI)	--	12,134,047	12,134,047
Total liabilities	682,783	\$ 12,614,816	13,297,599
Deferred inflows of resources			
Deferred pensions (note XI)	--	1,461,322	1,461,322
Deferred OPEB (note XII)	--	8,426	8,426
Total deferred inflows of resources	--	1,469,748	1,469,748
Fund balances/Net position:			
Fund balances (note II):			
Nonspendable	14,486	(14,486)	
Restricted	1,149,699	(1,149,699)	
Committed	7,239,330	(7,239,330)	--
Total fund balances	8,403,515	(8,403,515)	--
Total liabilities and fund balances	\$ 9,086,298		
Net position:			
Invested in capital assets, net of related debt		477,464	477,464
Unrestricted		(632,502)	(632,502)
Total net position		\$ (155,038)	\$ (155,038)

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

See accompanying Notes to the Basic Financial Statements.

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
GOVERNMENT-WIDE STATEMENT OF NET POSITION

As of June 30, 2018

Fund Balances - Total Governmental Funds (General Fund) \$ 8,403,515

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

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 Position as capital assets of APCD as a whole.

Capital assets	\$ 2,019,701	
Accumulated depreciation	(1,542,237)	
	<u>\$ 477,464</u>	477,464

Deferred pensions outflows of resources are for obligations that do not require the use of current financial resources and therefore are not reported as assets in the governmental funds. 4,850,791

Deferred OPEB outflows of resources are for obligations that do not require the use of current financial resources and therefore are not reported as assets in the governmental funds. 197,756

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

Compensated absences	(323,650)
Net OPEB Liability	(157,119)
Net Pension Liability	(12,134,047)

Deferred pensions inflows of resources are for obligations that do not require the use of current financial resources and therefore are not reported as a liability in the governmental funds. (1,461,322)

Deferred OPEB inflows of resources are for obligations that do not require the use of current financial resources and therefore are not reported as a liability in the governmental funds. (8,426)

Net Position of Governmental Activities \$ (155,038)

See accompanying Notes to the Basic Financial Statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES AND STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2018

	General Fund	Adjustments (1)	Statement of Activities
Revenues:			
Licenses, permits, and franchises	\$ 3,773,661	\$ --	\$ 3,773,661
Use of money and property	47,653	--	47,653
Grants and subventions	3,150,516	--	3,150,516
Charges for services	2,405,868	--	2,405,868
Other	12,421	--	12,421
Total revenues	9,390,119	--	9,390,119
Expenditures/expenses:			
Air pollution control services:			
Salaries and benefits	5,248,978	756,437	6,005,415
Services and supplies	3,586,993	--	3,586,993
Other expenses	153,031	--	153,031
Depreciation	--	128,761	128,761
Capital outlay	212,019	(212,019)	--
Total expenditures/expenses	9,201,021	673,179	9,874,200
Excess (deficiency) of revenues over expenditures/expenses	189,098	(673,179)	(484,081)
Fund balances/net position:			
Net position - beginning	8,214,417	(7,031,356)	1,183,061
Prior period adjustment	--	(854,018)	(854,018)
Net position - beginning, as restated	8,214,417	(7,885,374)	329,043
Net position - ending	\$ 8,403,515	\$ (8,558,553)	\$ (155,038)

- (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.

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds (General Fund)	\$	189,098
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. In turn, in the Government-wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Therefore, depreciation must be added, and capital outlays must be removed.

Depreciation	\$ (128,761)	
Capital outlay	<u>212,019</u>	
	<u>\$ 83,258</u>	83,258

Other post-employment benefits (OPEB) and pension expenses were reported in the Government-wide Statement of Activities and Changes in Net Position, but because they do not require the use of current financial resources, the increase or decrease in the net OPEB and net pension liabilities were not reported as an expenditure in the governmental funds.

OPEB (expense) credit	164,146
Net pension expense	(925,008)

Compensated absences is reported in the Government-wide Statement of Activities and Changes in Net Position, but it does not require the use of current financial resources. Therefore, it is not reported as expenditures in governmental funds.

	<u>4,425</u>
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Changes in Net Position of Governmental Activities	\$	<u>(484,081)</u>
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See accompanying Notes to the Basic Financial Statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

As of June 30, 2018

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. New Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements:

Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement replaces the requirements of Statement 45 and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit other postemployment benefits (OPEB), this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. See Note XII – Other PostEmployment Benefits (OPEB) and Note XIV – Prior Period Adjustments.

Statement No. 85 Omnibus 2017, addresses practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Implementation of the GASB Statement No. 85 did not have a material impact on the District's financial statements for the fiscal year ended June 30, 2018.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. New Accounting Pronouncements - Continued

Future Governmental Accounting Standards Board (GASB) Statements

The Governmental Accounting Standards Board Statements listed below will be implemented in future financial statements. These statements will be evaluated by the District to determine if they will have a material impact to the financial statements once effective.

Statement No. 83	<i>"Certain Asset Retirement Obligations"</i>	The requirements of this statement are effective for periods beginning after June 15, 2018. (FY 18/19)
Statement No. 84	<i>"Fiduciary Activities"</i>	The requirements of this statement are effective for periods beginning after December 15, 2018. (FY 19/20)
Statement No. 87	<i>"Leases"</i>	The requirements of this statement are effective for periods beginning after December 15, 2019. (FY 20/21)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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.

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 fund:

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.

D. Assets, Liabilities, and Net Position 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).

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities, and Net Position or Equity – Continued

1. Cash and Cash Equivalents - Continued

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 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, 2017. In addition, the district has a payable for deposits by permit holders (see Note IV).

4. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the APCD recognizes deferred outflows and inflows of resources.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities, and Net Position or Equity – Continued

4. Deferred Outflows and Inflows of Resources - Continued

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the APCD that is applicable to a future reporting period. The APCD has two items which qualify for reporting in this category; refer to Note XI and Note XII for detailed listings of the deferred outflows of resources the APCD has recognized.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the APCD that is applicable to a future reporting period. The APCD has two items which qualify for reporting in this category; refer to Note XI and Note XII for detailed listings of the deferred inflows of resources the APCD has recognized.

5. 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>
<hr/>	
Equipment:	
Automobiles and light trucks	5 to 10
General machinery and equipment	5 to 20
<hr/>	
Furniture	7
<hr/>	
Leasehold Improvements	20
<hr/>	
Software	3
<hr/>	

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities, and Net Position or Equity – Continued

6. 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 position.

7. 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 (see Note VIII).

8. Pensions

In government-wide financial statements, retirement plans (pensions) are required to be recognized and disclosed using the accrual basis of accounting (see Note XI and the required supplementary information (RSI) section immediately following the Notes to Financial Statements), regardless of the amount recognized as pension expenditures on the governmental fund statements, which use the modified accrual basis of accounting.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities, and Net Position or Equity – Continued

8. Pensions - Continued

For purposes of measuring the net pension liability and deferred outflows/inflows or resources relating to pensions and pension expense, information about the fiduciary net position of the APCD's pension plan with SBCERS and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by SBCERS.

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

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

9. Postemployment Benefits Other Than Pensions (OPEB)

In government-wide financial statements, postemployment benefits other than pensions (OPEB) are required to be recognized and disclosed using the accrual basis of accounting (see Note XII and the required supplementary information (RSI) section immediately following the Notes to Financial Statements), regardless of the amount recognized as pension expenditures on the governmental fund statements, which use the modified accrual basis of accounting.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities, and Net Position or Equity – Continued

9. Postemployment Benefits Other Than Pensions (OPEB) - Continued

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

Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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

10. 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 (see Note II).

11. 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, 2018, 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.

II. FUND BALANCES - Continued

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, 2018, fund balances are composed of the following:

Fund balances:

Nonspendable:

Employee loans - computer automation program	\$	14,486
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Restricted for:

DMV \$2 Grants	510,102
Carl Moyer Grants	189,897
DMV \$4 Programs	449,700

Committed to:

Imprest cash	550
ITG Projects	249,867
Capital Replacement	698,174
Data Acquisition System	591,472
Strategic Reserve	1,500,000
Retiree Health Subsidy	652,400
Monitoring	664,458
Reevaluation Cycle	800,000
Operational Activities	2,082,409
Total fund balances	<u>\$ 8,403,515</u>

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.

California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the County Treasurer must follow. These pooled funds are reported on an amortized cost basis. All investors in the Pool proportionately share any gains or losses. Credit and market risk is unknown for the District's Pool share. The fair value of the Pool is based on the value of the Pool shares.

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, 2018 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) up to \$250,000. The remaining balance on deposit is collateralized with securities held by the pledging financial institution's agent. Per Government Code Section 53652, the depository is required to maintain a market value of at least 110% of the pledged collateral.

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.

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.

III. CASH AND INVESTMENTS – Continued

B. Investments - Continued

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, 2018, 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 at June 30, 2018:

Investment Type	Total	% of Portfolio	Exempt from Disclosure	Minimum Legal Rating
Cash equivalents and investments in County Investment Pool	\$ 8,467,349	100%	\$ -	Not Rated
Total cash and investments	<u>\$ 8,467,349</u>		<u>\$ -</u>	

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 long-term 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*

III. CASH AND INVESTMENTS - Continued

B. Investments - Continued

3. Interest Rate Risk - Continued

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).

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	\$ 8,467,349	\$ 8,467,349
Total cash and investments	<u>\$ 8,467,349</u>	<u>\$ 8,467,349</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, 2018:

Statement of net position:

Cash and investments	\$ 8,467,899
Total cash and investments	<u>\$ 8,467,899</u>

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

Cash on hand	\$ 550
Cash equivalents and investments in County Investment Pool	8,467,349
Total cash and investments	<u>\$ 8,467,899</u>

The portion of cash and investments as of June 30, 2018, that is restricted is as follows:

Total unrestricted cash and investments	\$ 8,023,529
Restricted cash and investments (note IV)	444,370
Total cash and investments	<u>\$ 8,467,899</u>

IV. RESTRICTED CASH AND INVESTMENTS AND PERMIT HOLDERS PAYABLE

Cash and investments at June 30, 2018 that are restricted by legal or contractual requirements are listed in the following table. An offsetting permit holder's payable has also been recorded at an equivalent amount.

General Fund	
Permit holder deposits	\$ 444,370
Total restricted cash and investments	<u>\$ 444,370</u>

V. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental activities:				
Capital assets, being depreciated:				
Furniture	\$ 399,028	\$ -	\$ -	\$ 399,028
Equipment including Leasehold improvements	1,553,892	123,652	(145,238)	1,532,306
Software	-	88,367	-	88,367
Total capital assets, being depreciated	<u>1,952,920</u>	<u>212,019</u>	<u>(145,238)</u>	<u>2,019,701</u>
Less accumulated depreciation for:				
Furniture	(399,028)	-	-	(399,028)
Equipment including Leasehold improvements	(1,159,686)	(128,761)	145,238	(1,143,209)
Software	-	-	-	-
Total accumulated depreciation	<u>(1,558,714)</u>	<u>(128,761)</u>	<u>145,238</u>	<u>(1,542,237)</u>
Total capital assets, net	<u>\$ 394,206</u>	<u>\$ 83,258</u>	<u>\$ -</u>	<u>\$ 477,464</u>

VI. LEASE OBLIGATIONS

Operating Leases

The following is a schedule by years of future minimum rental payments required under the operating lease entered into by the APCD that has initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2018. The lease obligation is with the County of Santa Barbara (see Note VII).

Year Ending June 30,	
2019	\$ 241,263
2020	241,263
2021	241,263
2022	241,263
2023	241,263
2024-2028	1,206,314
2029-2033	1,166,104
Total Minimum Payments Required	<u>\$ 3,578,733</u>

Total rental expenditure/expense for the year ended June 30, 2018 was \$293,837.

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.

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, 2018, the County of Santa Barbara was paid \$30,334 for allocated overhead costs.

The APCD has one lease outstanding at June 30, 2018 with the County of Santa Barbara for the Casa Nueva building, with a 30-year term, and total minimum remaining payments of \$3,578,733, respectively (see Note VI). The APCD also previously leased the Aegis building, but this was amended during the fiscal year to terminate the lease early on December 31, 2017.

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, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Governmental activities:					
Employee compensated absences	\$ 328,075	\$ 266,443	\$ (270,868)	\$ 323,650	\$ 323,650
Total employee compensated absences	<u>\$ 328,075</u>	<u>\$ 266,443</u>	<u>\$ (270,868)</u>	<u>\$ 323,650</u>	<u>\$ 323,650</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, 2018, 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. It should also be noted that there aren't any incurred but not reported (IBNR) claims payable for the year ending June 30, 2018. For the past three fiscal years, no settlement amounts have exceeded insurance coverage.

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 four 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

XI. RETIREMENT PLAN - Continued

B. Fiduciary Responsibility - Continued

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: 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.

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. Benefits Provided

All pension plans provide benefits, in accordance with CERL regulations, upon retirement, disability or death of members. Retirement benefits are based on years of service, final average compensation, and retirement age. Employees terminating before accruing 5 years of retirement service credit (5 vesting) forfeit the right to receive retirement benefits unless they establish reciprocity with another public agency within the prescribed time period. Non-vested employees who terminate service are entitled to withdraw their accumulated contributions plus accrued interest.

Employees who terminate service after earning 5 years of retirement service credit may leave their contributions on deposit and elect to take a deferred retirement. Differences between expected or actual experience for vested and non-vested benefits may result in an increase or decrease to pension expense and net pension liability.

Service related disability benefits are based upon final average compensation or retirement benefits (if eligible). Non-service related disability benefits are based on 1) years of service and final average compensation or 2) retirement benefits (if eligible).

XI. RETIREMENT PLAN - Continued

C. Benefits Provided - Continued

Death benefits are based upon a variety of factors including whether the participant was retired or not. Annual cost-of-living adjustments (COLAs) after retirement are provided in all plans. COLAs are granted to eligible retired members each April based upon the Bureau of Labor Statistics Average Consumer Price Index (CPI) for All Urban Consumers for the Los Angeles-Riverside-Orange County area as of the preceding January 1 and is subject to an annual maximum dependent upon the provisions of the pension plans. Specific details for the retirement, disability or death benefit calculations and COLA maximums for each of the pension plans are available in the SBCERS' Comprehensive Annual Financial Report (CAFR). The SBCERS' CAFR is available online at: <http://cosb.countyofsb.org/sbcers/default.aspx?id=19040>.

D. Contributions

Per Article 16 of the Constitution of the State of California, contribution requirements of the active employees and the participating employers are established and may be amended by the SBCERS Board of Retirement. Depending upon the applicable plan, employees are required to contribute a certain percent of their annual pay. For each of the plans, the County's contractually required contribution (formerly known as the actuarially required contribution (ARC)) rate for the year ended June 30, 2016, was a specified percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Additional amounts required to finance any unfunded accrued liability are the responsibility of the plan sponsors. Active members are plan members who are currently accruing benefits and/or paying contributions into the applicable plan.

Employer and employee contribution rates are as follows:

	APCD Plan 1	APCD Plan 2	General Plan 7	General Plan 8
	Employees hired before July 2, 1995 may continue the plan	Employees hired before August 16, 2012 and after July 3, 1995 may continue the plan	Employees hired before January 1, 2013 and after August 16, 2012 may continue the plan	All APCD employees hired on or after January 1, 2013
Hire date				
Benefit formula	2% @ 55	2% @ 55	1.67% @ 57.5	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50-65	50-65	50-65	52-67
Monthly benefits, as a % of eligible	0.7454 - 1.5668	0.7454 - 1.5668	0.7091 - 1.4593	0.0100 - 0.0250
Required employee contribution rates	3.44 - 6.39%	6.89 - 12.77%	2.36 - 5.04%	6.91%
Required employer contribution rates	44.35%	42.96%	33.39%	35.48%

XI. RETIREMENT PLAN - Continued

E. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the APCD reported a liability of \$12,134,047 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The APCD's proportion of the net pension liability was based on a projection of the APCD's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2017, the APCD's proportion was 1.2898%, which was an decrease of 0.004% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the APCD recognized pension expense of \$2,191,962. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2018 the APCD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 1,225	\$ (820,430)
Net difference between projected and actual earnings on retirement plan investments	762,730	-
Net change in proportion		(607,992)
Net change in assumptions	2,227,103	
Changes in employer's proportion and differences between APCD contributions and proportionate share of contributions	590,225	(32,900)
APCD contributions subsequent to the measurement date	1,269,508	-
	<u>\$ 4,850,791</u>	<u>\$ (1,461,322)</u>

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

\$1,269,508 reported as deferred outflows of resources related to pensions resulting from APCD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

XI. RETIREMENT PLAN - Continued

E. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 470,076
2020	903,059
2021	587,973
2022	158,853
2023	-
Thereafter	-
	<u>\$ 2,119,961</u>

F. Actuarial Assumptions for Annual Pension Costs

	<u>Miscellaneous</u>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actual Cost Method	Entry Age
Actuarial Assumptions	
Administrative expenses	Administrative expenses are assumed to be \$5.1 million for the fiscal year ending June 30, 2017, to be split between employees and employers based on their share of the overall contributions. Administrative expenses are assumed to increase by the assumed wage inflation of 3.00% each year.
Discount rate	7.00%
Inflation	3.00%
COLA Increases:	
Basic COLA	2.75% for those with a 2.75% cap;
Post-Retirement COLA	2.60% for APCD Plans 1 and 2; 1.90% APCD Plan 8 (PEPRA)
Projected Salary Increase	3.00% plus merit component
Investment Rate of Return	7.00% (1)
Post-Retirement Mortality	
	Healthy Lives: Sex distinct 2014 CalPERS Healthy Annuitant Mortality table, adjusted for and projected with generational improvements using Scale MP-2016 from a base year of 2009;
	Disabled Lives: CalPERS Industrial Disabled Annuitant Mortality, no adjustment, and CalPERS Non-Industrial Disabled Annuitant Mortality, projected with generational improvements using Projection Scale MP-2016 from a base year of 2009.

(1) Net of pension plan investment expense

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2013 through June 30, 2016. Based upon the results of the 2016 actuarial experience study, there was a decrease in discount rate from the prior valuation.

XI. RETIREMENT PLAN - Continued

F. Actuarial Assumptions for Annual Pension Costs - Continued

Change of Assumption – The accounting discount rate was reduced from 7.50% to 7.00% during the measurement period ended June 30, 2017. Deferred inflows of resources for changes of assumptions represents the unamortized portion of the changes of assumptions related to prior measurement periods.

G. Discount Rate

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad U.S. equity	19%	4.55%
Developed market non-U.S. equity	11%	5.75%
Emerging markets equity	7%	8.25%
Core fixed income	17%	1.00%
Custom non-core fixed income	11%	3.33%
Custom real return	15%	4.44%
Custom real estate	10%	50.20%
Private equity	10%	7.50%
Cash	0%	-0.25%
Total	100%	

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

XI. RETIREMENT PLAN – Continued

H. Sensitivity of the APCD’s Proportionate Share of the Net Pension Liability to Changes in Discount Rate

The following presents the APCD’s proportionate share of the net pension liability calculated using the discount rate of 7 percent, as well as what the APCD’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6 percent) or 1-percentage point higher (8 percent) than the current rate:

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
APCD's proportionate share of the net pension plan liability	\$ 19,062,879	\$ 12,134,047	\$ 6,482,948

I. Pension fund fiduciary net position

Detailed information about the pension fund’s fiduciary net position is available in the separately issued SBCERS CAFR.

XII. OTHER POSTEMPLOYMENT 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.

B. Benefits Provided

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.

XII. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

B. Benefits Provided - Continued

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.

C. Employees Covered

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the OPEB Plan:

Active employees	28
Vested terminated employees	13
Retirees and surviving spouses	<u>61</u>
Total	<u><u>102</u></u>

D. 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.

XII. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

E. Net OPEB Liability

The APCD's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2016, updated to June 30, 2017, based on the following actuarial methods and assumptions:

Salary increase rate	3% plus an additional longevity and promotion increase compounded based on years of service
Investment rate of return	7.00%, net of investment expense
Healthcare cost trend rates	The Healthcare Cost Trend Rate is not applicable because the total cost of health benefits is not valued. Only the monthly benefit provided is valued using the assumption that no future increase will be granted to the amount.
Future retiree plan election	55% - monthly subsidy of \$15 per year of service; 45% - \$4 cash benefit option
Mortality rates	Healthy Lives: Mortality rates for retirees, beneficiaries, terminated vested, and reciprocals are based on the sex distinct CalPERS Healthy Annuitant Mortality Tables adjusted by 0.95 for males and 0.90 for females, with Generational improvement using Projection Scale MP-2016 from a base year of 2009. Non-duty related mortality rates for active members are based on the sex distinct CalPERS Preretirement Non-Industrial Mortality Table, with no adjustment, with Generational improvement using Projection Scale MP-2016 from a base year of 2009. Safety members are also subject to the CalPERS Preretirement Industrial Mortality Table for duty-related deaths, with the same Generational improvements applied. Disabled Lives: Mortality rates for disabled retirees are based on CalPERS Industrial Disabled Annuitant Mortality, with no adjustment (Safety only), CalPERS Non-Industrial Disabled Annuitant Mortality, with no adjustment (General only), with Generational improvement using Projection Scale MP-2016 from a base year of 2009.

The actuarial assumptions used in the valuation were based on 1) the demographic assumptions determined in the actuarial experience study of July 1, 2013 – June 30, 2016 for the Pension Plan, 2) implementation of the OPEB Funding Policy, and 3) current experience for OPEB Plan election by retirees. As the benefit for the OPEB plan is a fixed payment per year of service that is currently lower than the premiums paid for coverage, and is expected to remain so into the future, no age related costs are required to be developed.

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

XII. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

E. Net OPEB Liability - Continued

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	60%	4.60%
Fixed income	40%	1.00%
Total	100%	

F. Discount Rate

The discount rate used to measure the total OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that the APCD contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

G. Changes in the OPEB Liability

The changes in the net OPEB liability for the OPEB Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2017 (Valuation Date June 30, 2016)	\$ 1,448,921	\$ 1,154,114	\$ 294,807
Changes for the year:			
Service cost	14,378		14,378
Interest	98,778		98,778
Contributions - employer		162,872	(162,872)
Net investment income		93,589	(93,589)
Benefit payments	(91,292)	(91,292)	-
Administrative expense		(5,617)	5,617
Net changes	21,864	159,552	(137,688)
Balance at June 30, 2018 (Valuation Date June 30, 2017)	\$ 1,470,785	\$ 1,313,666	\$ 157,119

XII. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

H. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the APCD if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
\$ 322,766	\$ 157,119	\$ 17,920

I. Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

Since the dollar amount of the benefits provided are not expected to increase and are below the current premiums for health benefits, no trend assumptions are used in calculating the OPEB liabilities. Therefore, the results are not affected by any increase or decrease in the healthcare trend rates that may apply to the underlying benefit premiums in the future, for measurement period ended June 30, 2017.

J. OPEB Plan Fiduciary Net Position

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

K. Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss. The difference between projected OPEB plan investment earnings and actual earnings is amortized over a five year period. The remaining gains and losses are amortized over the expected average remaining service life.

L. OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the APCD recognized OPEB expense of \$37,160.

XII. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – Continued

L. OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB - Continued

As of the fiscal year ended June 30, 2018, the APCD reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on retirement plan investments	\$ -	\$ (8,426)
APCD contributions subsequent to the measurement date	197,756	-
	<u>\$ 197,756</u>	<u>\$ (8,426)</u>

The \$197,756 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ (2,106)
2020	(2,106)
2021	(2,106)
2022	(2,108)
2023	-
Thereafter	-
	<u>\$ (8,426)</u>

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 \$18,500 (during calendar year 2018), 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>
6/30/2016	\$ 2,274
6/30/2017	\$ 2,211
6/30/2018	\$ 4,219

XIV. PRIOR PERIOD ADJUSTMENTS

Note I describes the GASB pronouncements the District is adopting for the current fiscal year. There is a financial impact for the adoption of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."

Net OPEB Liability

Implementation of GASB Statement No. 75 recognizes a liability for the District's proportionate share of the net OPEB liability of all employers for benefits provided through SBCERS. Additionally, the District is required to recognize OPEB expense and report deferred outflows of resources and deferred inflows of resources related to OPEB for its proportionate shares of collective OPEB expense and collective deferred outflows or resources and deferred inflows of resources related to OPEB.

Because all of the information required to restate prior year was not available at the time the financial statements were available to be issued, prior year values are not presented in a comparable manner.

XIV. PRIOR PERIOD ADJUSTMENTS - Continued

The following table presents the effect of the prior period adjustment on the June 30, 2018 financial statement balances.

Net Position, at July 1, 2017, as originally stated	\$ 1,183,061
Prior period adjustments:	
Recognition of other post-employment benefits (OPEB) liability	(1,016,890)
Recognition of deferred outflows related to OPEB	<u>162,872</u>
Decrease in net position due to net OPEB liability	<u>(854,018)</u>
Net Position, at July 1, 2017, as restated.	<u><u>\$ 329,043</u></u>

XV. SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 4, 2019, the date that the financial statements were available to be issued.

XVI. 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 \$1,278,000 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.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

GENERAL FUND - BUDGETARY COMPARISON SCHEDULE

For the Fiscal Year Ended June 30, 2018 (Budgetary Basis)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Licenses, permits, and franchises	\$ 3,257,764	\$ 3,257,764	\$ 3,773,661	\$ 515,897
Use of money and property	40,000	40,000	47,653	7,653
Grants and subventions	3,089,200	3,089,200	3,150,516	61,316
Charges for services	2,315,718	2,315,718	2,405,868	90,150
Other	2,000	2,000	12,421	10,421
Total revenues	8,704,682	8,704,682	9,390,119	685,437
Expenditures:				
Air pollution control services:				
Salaries and benefits	5,785,600	5,785,600	5,248,978	536,622
Services and supplies	4,126,828	4,126,828	3,586,993	539,835
Other expenses	165,199	165,199	153,031	12,168
Capital outlay	292,500	292,500	212,019	80,481
Total expenditures	10,370,127	10,370,127	9,201,021	1,169,106
Excess (deficiency) of revenues over expenditures/expenses	(1,665,445)	(1,665,445)	189,098	1,854,543
Fund balances:				
Beginning of year	8,214,417	8,214,417	8,214,417	--
End of year	\$ 6,548,972	\$ 6,548,972	\$ 8,403,515	\$ 1,854,543

See accompanying independent auditors' report.

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

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 re-appropriation 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.

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 29, for more details on the object level variances found in the budgetary comparison schedule.

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM –
SCHEDULE OF THE APCD'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY

For the Year Ended June 30, 2018

Last 10 Fiscal Years*	FY 2018	FY 2017	FY 2016	FY 2015
Measurement Date	06/30/17	06/30/16	06/30/15	06/30/14
Valuation Date	06/30/16	06/30/15	06/30/14	06/30/13
APCD's proportion of the net pension liability	1.2898%	1.2939%	1.1649%	1.1680%
APCD's proportionate share of the net pension liability	\$ 12,134,047	\$ 10,877,995	\$ 8,476,136	\$ 7,128,755
APCD's covered payroll	\$ 3,306,305	\$ 3,336,095	\$ 3,322,884	\$ 3,260,399
APCD's proportionate share of the net pension liability as a percentage of covered payroll	367.0%	326.1%	255.1%	218.65%
Plan fiduciary net position as a percentage of the total pension liability	74.90%	75.2%	77.7%	80.46%

Notes to Schedule:

*Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown. Additional years will be presented as they become available.

Source: Santa Barbara County Employees' Retirement System GASB 67/68 Report as of June 30, 2017, June 30, 2016, June 30 2015, and June 30, 2014 valuation reports produced by Cheiron.

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM –
SCHEDULE OF THE APCD'S PENSION CONTRIBUTIONS

For the Year Ended June 30, 2018

Last 10 Fiscal Years*	FY 2018	FY 2017	FY 2016	FY 2015
Contractually required contribution (actuarially determined)	1,267,652	\$ 1,192,461	\$ 1,239,256	\$ 1,176,451
Contributions in relation to the actuarially determined contribution	1,267,652	1,192,461	1,239,256	1,176,451
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
APCD's covered payroll	\$ 3,306,305	\$ 3,336,095	\$ 3,322,884	\$ 3,260,399
Contributions as a percentage of covered payroll	38.3%	35.7%	37.3%	36.08%

Notes to Schedule:

*Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown. Additional years will be presented as they become available.

Source: Santa Barbara County Employees' Retirement System GASB 67/68 Report as of June 30, 2017, June 30, 2016, June 30 2015, and June 30, 2014 valuation reports produced by Cheiron.

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM –
SCHEDULE OF THE APCD'S CHANGES IN THE NET OPEB LIABILITY AND
RELATED RATIOS

For the year ended June 30, 2018

Last 10 Fiscal Years*

	FY 2018
Total OPEB liability	
Service cost	\$ 14,379
Interest on the total OPEB liability	98,778
Benefit payments	(91,292)
Net change in the total OPEB liability	21,865
Total OPEB liability - beginning	1,448,921
Total OPEB liability - ending (a)	\$ 1,470,786
 Plan Fiduciary Net Position	
Contributions - employers	\$ 162,872
Net investment income	93,589
Benefit payments	(91,292)
Administrative expenses	(5,616)
Net change in the Plan Fiduciary Net Position	159,553
Plan Fiduciary Net Position - beginning	1,154,114
Plan Fiduciary Net Position - ending (b)	\$ 1,313,667
 Net OPEB liability - ending (a) - (b)	\$ 157,119
 Plan Fiduciary Net Position as a percentage of the total OPEB liability	89.32%
 Covered payroll	\$ 3,306,305
 Net OPEB Liability as a percentage of covered payroll	4.75%
 Measurement date	June 30, 2017
Valuation date	June 30, 2016, updated to June 30, 2017

Notes to Schedule:

- * Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Source: Santa Barbara County Employees' Retirement System GASB 74/75 Report as of June 30, 2017, produced by Cheiron.

STATISTICAL SECTION (UNAUDITED)

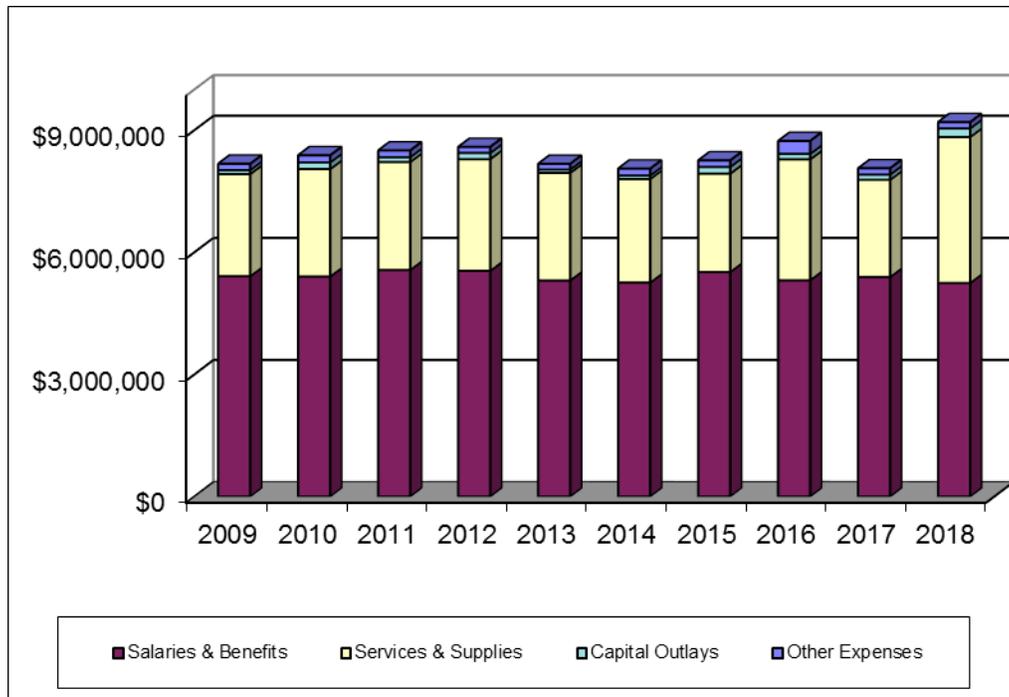
General Fund Expenditures by Major Object 71
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The information in the statistical section is not covered by the Independent Auditors' Report, but is presented as supplemental data for the benefit of the readers of the comprehensive annual financial report.

GENERAL FUND EXPENDITURES BY MAJOR OBJECT

(Combined Budgetary and GAAP Basis) Last Ten Fiscal Years

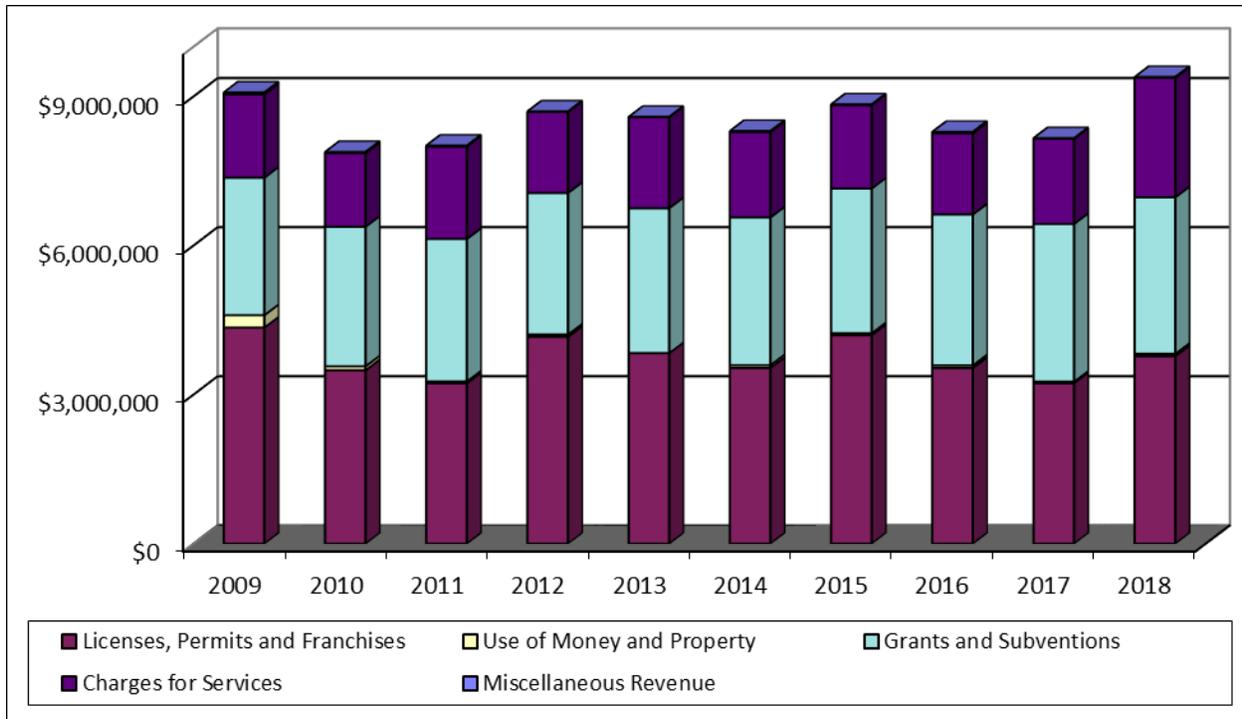


Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Other Expenses	Total Expenditures
2009	5,414,416	2,511,145	95,986	156,336	\$ 8,177,883
2010	5,407,472	2,641,301	163,446	175,188	\$ 8,387,407
2011	5,568,990	2,652,335	118,893	165,563	\$ 8,505,781
2012	5,547,586	2,742,990	152,967	148,120	\$ 8,591,663
2013	5,310,383	2,644,481	81,405	140,557	\$ 8,176,826
2014	5,259,494	2,543,802	84,689	170,929	\$ 8,058,914
2015	5,519,023	2,415,952	164,474	160,798	\$ 8,260,247
2016	5,315,212	2,971,777	133,006	318,413	\$ 8,738,408
2017	5,395,402	2,389,598	127,788	154,880	\$ 8,067,668
2018	5,248,978	3,586,993	212,019	153,031	\$ 9,201,021

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

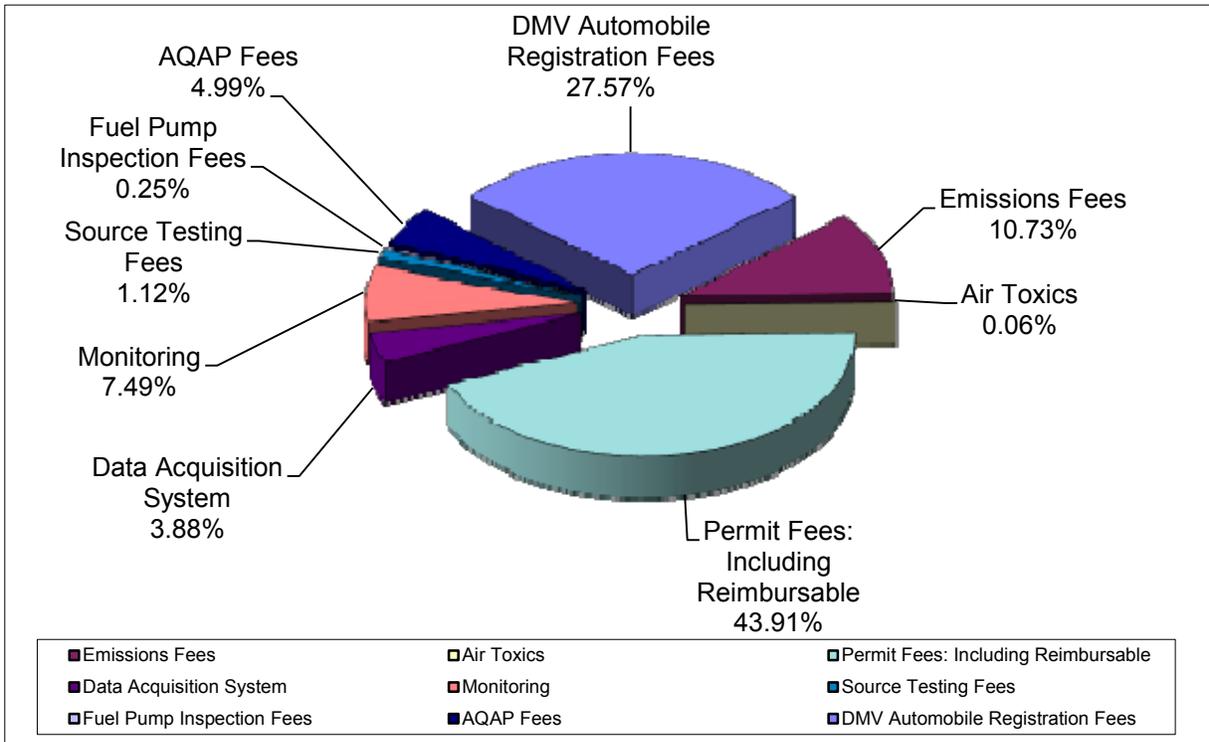


Year	Licenses, Permits and Franchises	Use of Money and Property	Grants and Subventions	Charges for Services	Miscellaneous Revenue	Total Revenues
2009	\$ 4,349,163	249,722	2,768,491	1,674,763	36,620	\$ 9,078,759
2010	\$ 3,491,018	78,637	2,808,773	1,480,161	22,590	\$ 7,881,179
2011	\$ 3,226,591	38,344	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
2013	\$ 3,835,844	(21,875)	2,916,048	1,833,905	1,632	\$ 8,565,554
2014	\$ 3,536,813	55,833	2,973,829	1,720,825	15,450	\$ 8,302,750
2015	\$ 4,196,836	38,387	2,912,323	1,678,870	12,433	\$ 8,838,849
2016	\$ 3,536,289	53,314	3,036,840	1,632,337	26,552	\$ 8,285,332
2017	\$ 3,229,432	31,626	3,174,081	1,715,408	7,788	\$ 8,158,335
2018	\$ 3,773,661	47,653	3,150,516	2,405,868	12,421	\$ 9,390,119

Source: Santa Barbara County Air Pollution Control District Audited Financial Statements

GENERAL FUND FEE REVENUES BY FEE SOURCE

Fiscal Year 2017-18

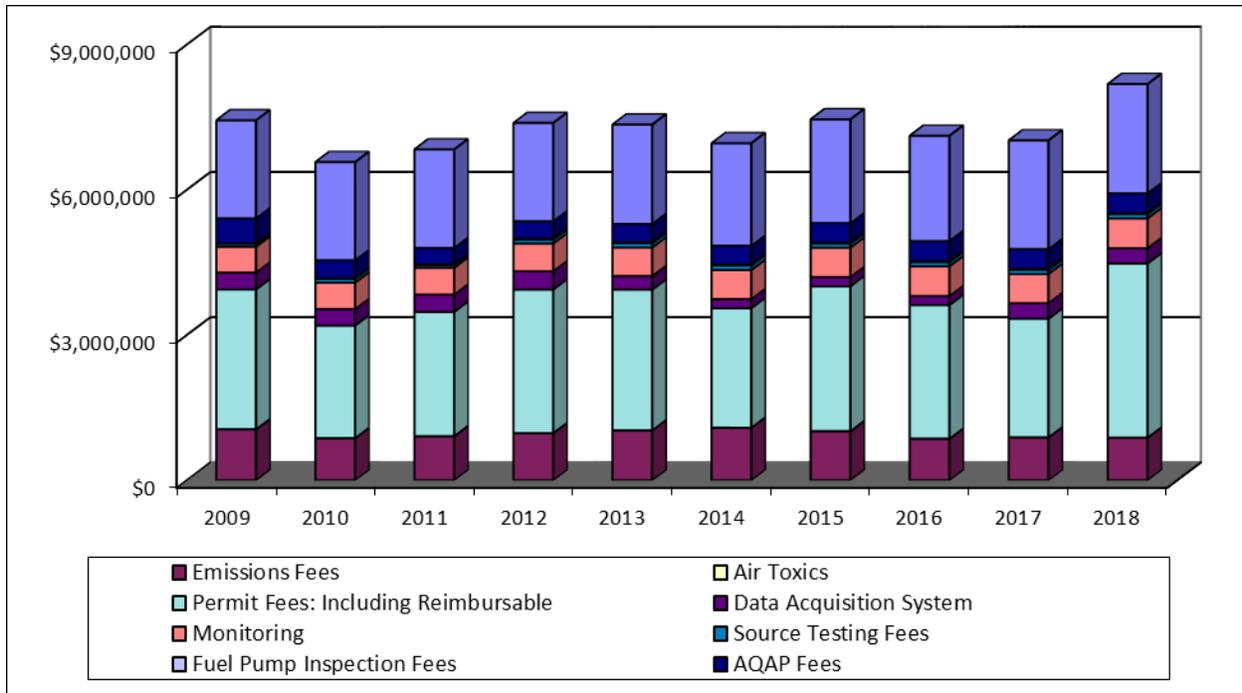


Fee Source	FY 17-18
Emissions Fees	\$ 878,137
Air Toxics	5,145
Permit Fees: Including Reimbursable	3,595,441
Data Acquisition System	317,841
Monitoring	612,889
Source Testing Fees	91,866
Fuel Pump Inspection Fees	20,281
AQAP Fees	408,919
DMV Automobile Registration Fees	2,257,103
Total Fee Revenues	\$ 8,187,622

Source: Santa Barbara County Air Pollution District Audited Fee Revenues

GENERAL FUND FEE REVENUES BY FEE SOURCE

Last Ten Fiscal Years

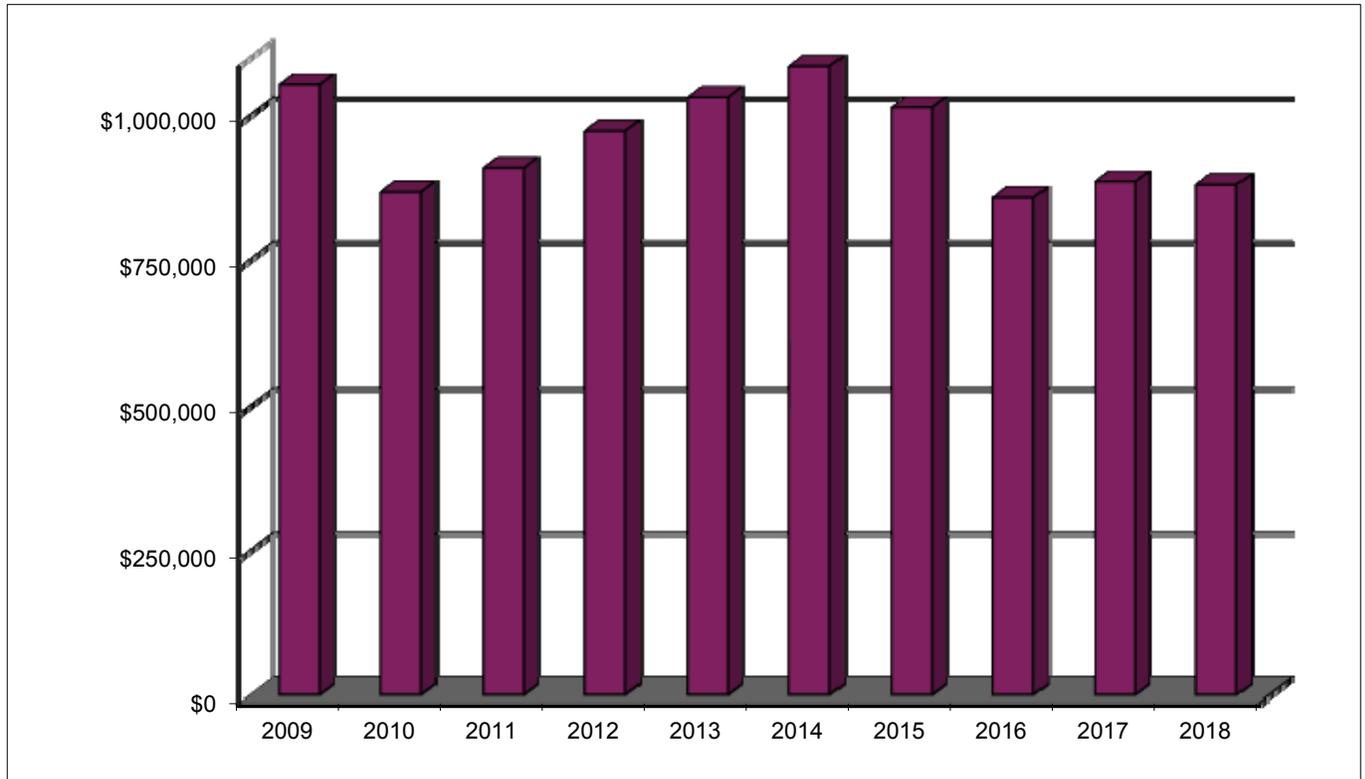


Year	Emissions Fees	Air Toxics	Permit Fees: Including Reimbursable	Data Acquisition System	Monitoring	Source Testing Fees	Fuel Pump Inspection Fees	AQAP Fees	DMV Automobile Registration Fees	Total Fee Revenues
2009	\$ 1,051,272	6,221	2,885,594	348,562	534,244	53,722	14,096	519,147	2,025,336	\$ 7,438,194
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
2013	\$ 1,029,140	5,633	2,905,227	281,475	587,997	90,803	20,281	378,437	2,051,399	\$ 7,350,392
2014	\$ 1,082,816	5,867	2,467,491	190,135	597,744	95,217	20,727	386,944	2,117,633	\$ 6,964,574
2015	\$ 1,011,844	5,727	2,989,787	193,512	602,803	87,146	20,786	403,179	2,143,037	\$ 7,457,821
2016	\$ 855,895	5,865	2,757,639	188,315	611,524	88,069	21,019	415,955	2,174,140	\$ 7,118,421
2017	\$ 883,274	5,351	2,448,971	322,960	599,983	89,512	23,061	405,470	2,244,316	\$ 7,022,898
2018	\$ 878,137	5,145	3,595,441	317,841	612,889	91,866	20,281	408,919	2,257,103	\$ 8,187,622

Source: Santa Barbara County Air Pollution District Audited Fee Revenues

EMISSION FEE REVENUES

Last Ten Fiscal Years



Year	Emission Fees
2009	1,051,272
2010	865,433
2011	906,927
2012	970,904
2013	1,029,140
2014	1,082,816
2015	1,011,844
2016	855,895
2017	883,274
2018	878,137

Source: Santa Barbara County Air Pollution District Audited Fee Revenues

KEY AIR QUALITY AND DEMOGRAPHIC INFORMATION

Santa Barbara County Region

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

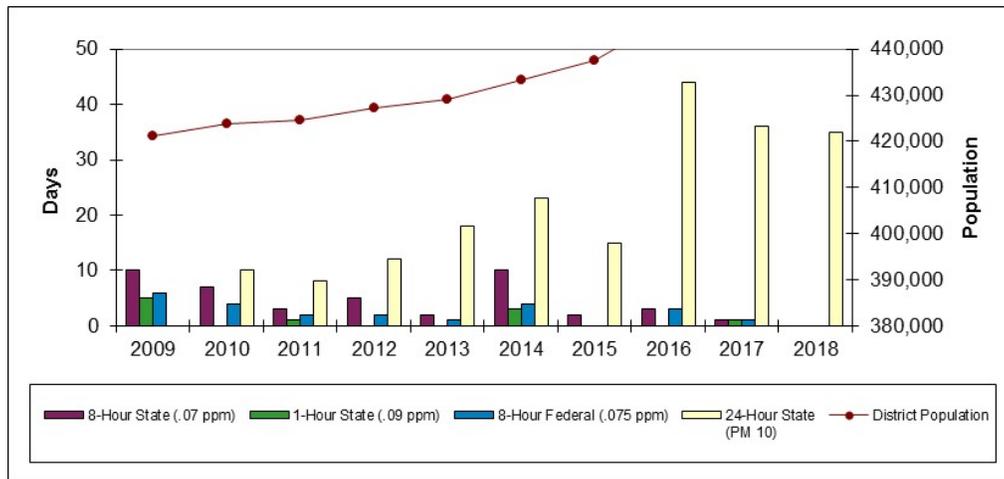
Lompoc Valley is located in the western portion of the County. Vandenberg Air Force Base is located in the Valley contributing many local employment opportunities to County residents.

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)					
	Ozone			Particulate Matter	
Year	8-Hour State (.07 ppm)	1-Hour State (.09 ppm)	8-Hour Federal (.075 ppm)	24-Hour State (PM 10)	District Population
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
2013	2	0	1	18	429,200
2014	10	3	4	23	433,398
2015	2	0	0	15	437,643
2016	3	0	3	44	446,717
2017	1	1	1	36	450,663
2018	0	0	0	35	453,457

2001-2010 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

2012-2013 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2012 and 2013. Sacramento, California, May 2013.

2013-2014 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2013 and 2014. Sacramento, California, May 2014.

2014-2015 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2014 and 2015. Sacramento, California, May 2015

2015-2016 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2015 and 2016. Sacramento, California, May 2016.

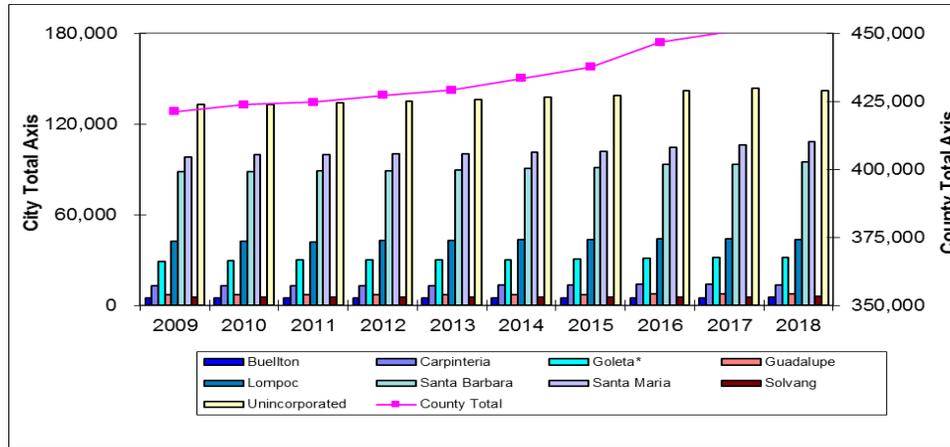
2016-2017 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2016 and 2017. Sacramento, California, May 2017.

2017-2018 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2017 and 2018. Sacramento, California, May 2018.

SANTA BARBARA COUNTY POPULATION BY CITY - LAST TEN CALENDAR YEARS



Santa Barbara County (January 1,)										
City	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Buellton	4,744	4,843	4,854	4,858	4,863	4,893	4,931	4,957	5,129	5,291
Carpinteria	13,136	13,129	13,041	13,076	13,099	13,442	13,547	13,928	13,943	13,704
Goleta*	29,266	29,789	29,887	29,930	29,962	30,202	30,765	31,235	31,760	31,949
Guadalupe	7,018	7,118	7,080	7,097	7,100	7,144	7,205	7,348	7,414	7,604
Lompoc	42,385	42,560	42,063	42,854	42,730	43,314	43,479	44,116	44,042	43,599
Santa Barbara	88,265	88,733	88,827	89,082	89,681	90,385	91,088	93,190	93,063	94,807
Santa Maria	98,163	99,589	99,582	100,199	100,306	101,103	102,087	104,404	106,280	108,470
Solvang	5,241	5,265	5,264	5,281	5,292	5,363	5,489	5,451	5,593	5,771
Unincorporated	132,979	132,714	134,134	134,890	136,167	137,552	139,052	142,088	143,439	142,262
County Total	421,197	423,740	424,732	427,267	429,200	433,398	437,643	446,717	450,663	453,457

*Goleta incorporated in 2003.

2001-2010 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

2012-2013 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2012 and 2013. Sacramento, California, May 2013.

2013-2014 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2013 and 2014. Sacramento, California, May 2014.

2014-2015 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2014 and 2015. Sacramento, California, May 2015

2015-2016 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2015 and 2016. Sacramento, California, May 2016.

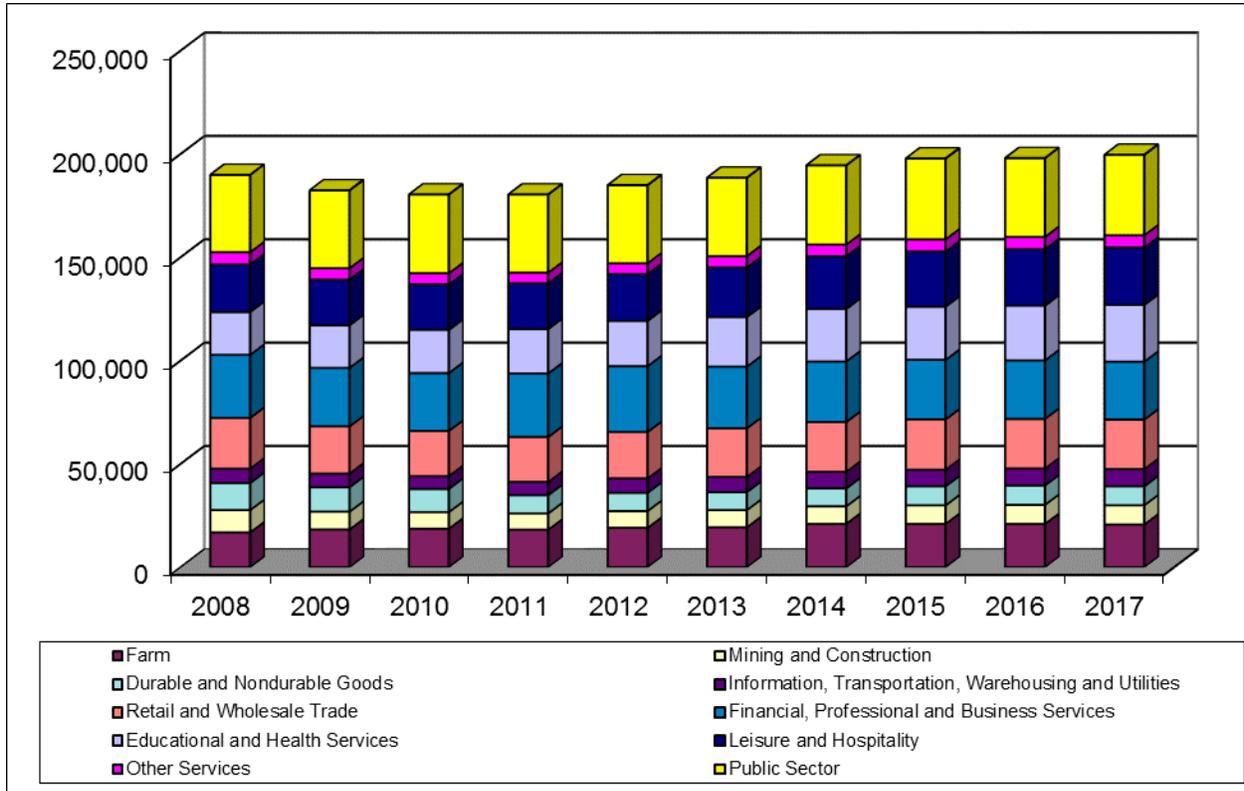
2016-2017 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2016 and 2017. Sacramento, California, May 2017.

2017-2018 Data:

State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2017 and 2018. Sacramento, California, May 2018.

SANTA BARBARA COUNTY CIVILIAN EMPLOYMENT -
LAST TEN CALENDAR YEARS

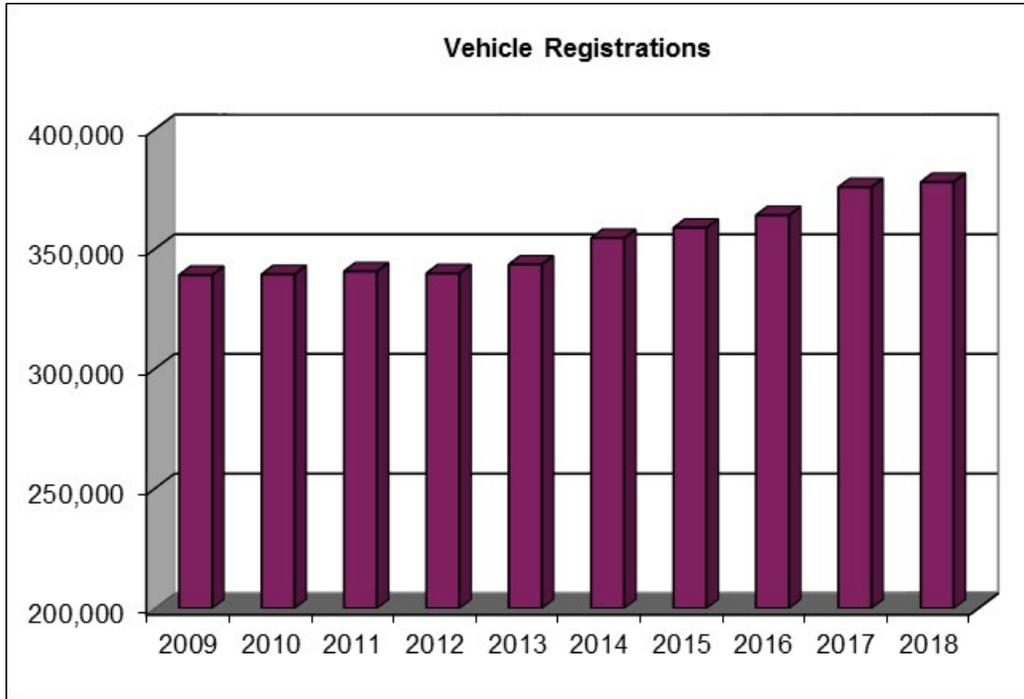


Year	Farm	Mining and Construction	Durable and Nondurable Goods	Information, Transportation, Warehousing and Utilities	Retail and Wholesale Trade	Financial, Professional and Business Services	Educational and Health Services	Leisure and Hospitality	Other Services	Public Sector	Total Wage and Salary
2008	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
2013	19,400	8,300	8,700	7,300	23,600	29,800	24,000	24,000	5,500	37,900	188,500
2014	21,000	8,500	8,700	8,000	24,100	29,300	25,400	25,500	5,700	38,300	194,500
2015	21,000	9,000	9,200	8,000	24,400	28,800	25,700	26,700	5,900	39,100	197,800
2016	21,000	9,200	9,400	8,200	24,000	28,300	26,500	27,300	6,000	38,100	198,000
2017	20,700	9,300	9,200	8,300	24,000	28,000	27,500	27,700	6,000	38,900	199,600

Note: 2018 Data was not available at time of report issuance

Source: California Employment Development Department (EDD)

FEE-PAID VEHICLE REGISTRATIONS AND FEES COLLECTED -
 AUTOMOBILES AND LIGHT TRUCKS IN SANTA BARBARA COUNTY - LAST
 TEN FISCAL YEARS



Fiscal Year	Vehicle Registrations	Registration Fees
2009	339,244	2,025,336
2010	339,496	2,026,839
2011	340,725	2,034,178
2012	339,915	2,029,342
2013	343,609	2,051,399
2014	354,704	2,117,633
2015	358,959	2,143,037
2016	364,168	2,174,140
2017	375,923	2,244,316
2018	378,065	2,257,103

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 & Cities Included:</i>	Santa Barbara County and the cities of Buellton, Carpinteria, Goleta, Guadalupe, Lompoc, Santa Barbara, Santa Maria, and Solvang
<i>Population:</i>	453,457 (as of January 1, 2018)
<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>	378,065 (in Fiscal Year 2017-18)
<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>	1,089 Small, Medium, and Large
<i>Number of Air Monitoring Stations:</i>	18
<i>Full-time Positions for 2016-17:</i>	52.25 are authorized and 43.00 are funded.
<i>Full-time Positions for 2017-18:</i>	52.25 are authorized and 43.00 are funded.
<i>Adopted 2017-18 Budget:</i>	\$10,370,127
<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.

ATTACHMENT B

Fiscal Year 2017-18
Independent Auditor's
*Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government
Auditing Standards*

January 17, 2019

Santa Barbara County Air Pollution Control District
Board of Directors

260 San Antonio Road, Suite A
Santa Barbara, California 93110



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, 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, the financial statements of Santa Barbara County Air Pollution Control District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Santa Barbara County Air Pollution Control District's basic financial statements, and have issued our report thereon dated January 4, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Bartlett, Prungh + Wolf, LLP

January 4, 2019
Santa Barbara, California

ATTACHMENT C

Fiscal Year 2017-18
Independent Auditor's
Report to the Board of Directors and Management

January 17, 2019

Santa Barbara County Air Pollution Control District
Board of Directors

260 San Antonio Road, Suite A
Santa Barbara, California 93110



January 4, 2019

Board of Directors
Santa Barbara County Air Pollution Control District

We are pleased to present this letter related to our audit of the financial statements and compliance of Santa Barbara County Air Pollution Control District (the District) for the year ended June 30, 2018. This letter summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the District's financial reporting process.

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

The Respective Responsibilities of the Auditor and Management

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States have been described to you in our engagement letter dated June 6, 2018 which includes the planned scope and timing of our audit and we have discussed with you our identification of and planned audit response to significant risks of material misstatement. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Significant Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. The following is a description of the significant accounting policies or their application that was either initially selected or changed during the year.

Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits (OPEB). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans and that administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. Retroactive implementation of this standards required resulted in a prior period adjustment to increase net position by \$854,018.

Statement No. 85 Omnibus 2017, addresses practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Alternative Treatments Discussed with Management

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the District's financial statements:

Depreciation

Depreciation for fixed assets is taken on a straight-line basis over the expected life of each fixed asset. This method meets the generally accepted accounting principles requirement of being systematic and rational.

Other Post-Employment Benefits

In accordance with GASB Statement No. 75, each participating cost-sharing employer is required to report its proportionate share of the collective net OPEB liability, related expense, and deferred outflows/inflows of resources. SBCERS actuaries calculated these amounts in accordance with the parameters of GASB 75.

Net Pension Liability

In accordance with GASB Statement No. 68, each participating cost-sharing employer is required to report its proportionate share of the collective net pension liability, pension expense, and deferred outflows/inflows of resources. SBCERS actuaries calculated these amounts in accordance with the parameters of GASB 68.

Audit Adjustments

In order to comply with GASB Statement No. 68 and GASB Statement No. 75, the following adjustment was proposed by us and recorded by the District:

- \$5,775,799 to record the current year annual activity related to the net pension liability and related deferred inflows and outflows, as required by GASB 68.
- \$1,051,774 to record the net position restatement, as well as current year activity related to the net OPEB liability and related deferred inflows and outflows, as required by GASB 75.

Uncorrected Misstatements

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Significant Written Communications between Management and Our Firm

In conjunction with the audit of the financial statements, we have been provided a letter of certain representations from management dated January 4, 2019.

Conclusion

This letter is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than the specified parties.

We will be pleased to respond to any questions you have about the foregoing matters. We appreciate the opportunity to continue to be of service to the Santa Barbara County Air Pollution Control District.

Very truly yours,



BARTLETT, PRINGLE & WOLF, LLP
Certified Public Accountants and Consultants