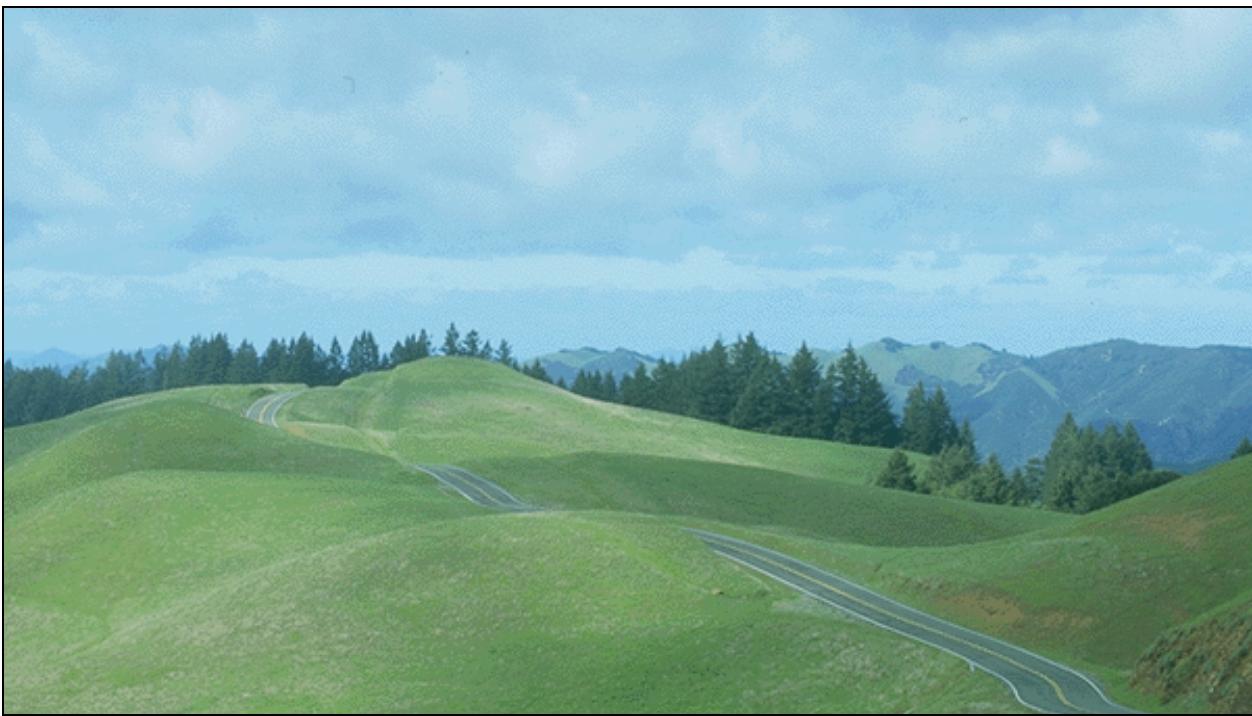


COMPREHENSIVE ANNUAL FINANCIAL REPORT



**FISCAL YEAR ENDED
JUNE 30, 2008**

**TERRY DRESSLER
AIR POLLUTION CONTROL OFFICER**



MISSION STATEMENT

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

Front Cover:

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Key Photos™

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



**Comprehensive Annual Financial Report
Year Ended June 30, 2008**

Prepared by:

The Fiscal Section of the Santa Barbara County Air Pollution Control District
Donald C. Kendig, CPA, Business Manager





Santa Barbara County
Air Pollution Control District

Comprehensive Annual Financial Report
Year Ended June 30, 2008

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Our Vision Clean Air

March 25, 2009

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

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, 2008

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

Nasif, Hicks, Harris & Co., a firm of licensed certified public accountants, has issued an unqualified ("clean") opinion on the APCD's financial statements for the fiscal year ended June 30, 2008. The independent auditor's 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 auditor's 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 required for the fiscal year ended June 30, 2008 because expenditures of federal funds were above the \$500,000 threshold. Therefore, there will 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 to adopt measures to control stationary sources of pollution, issue permits, monitor air quality, maintain an inventory of pollution sources, and other related activities.

Santa Barbara County Air Pollution Control District Governing Board

Policymaking and legislative authority is vested in the governing board of the APCD (Board), 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, 2008.

Supervisor Salud Carbajal

First District, Santa Barbara County
Board of Supervisors

Mayor Russ Hicks

City of Buellton

Supervisor Janet Wolf, Vice Chair

Second District, Santa Barbara County
Board of Supervisors

Councilmember Al Clark

City of Carpinteria

Supervisor Brooks Firestone

Third District, Santa Barbara County
Board of Supervisors

Councilmember Eric Onnen

City of Goleta

Supervisor Joni Gray

Fourth District, Santa Barbara County
Board of Supervisors

Mayor Lupe Alvarez, Chair

City of Guadalupe

Supervisor Joe Centeno

Fifth District, Santa Barbara County
Board of Supervisors

Mayor Pro Tem Will Schuyler

City of Lompoc

Mayor Marty Blum

City of Santa Barbara

Mayor Larry Lavagnino

City of Santa Maria

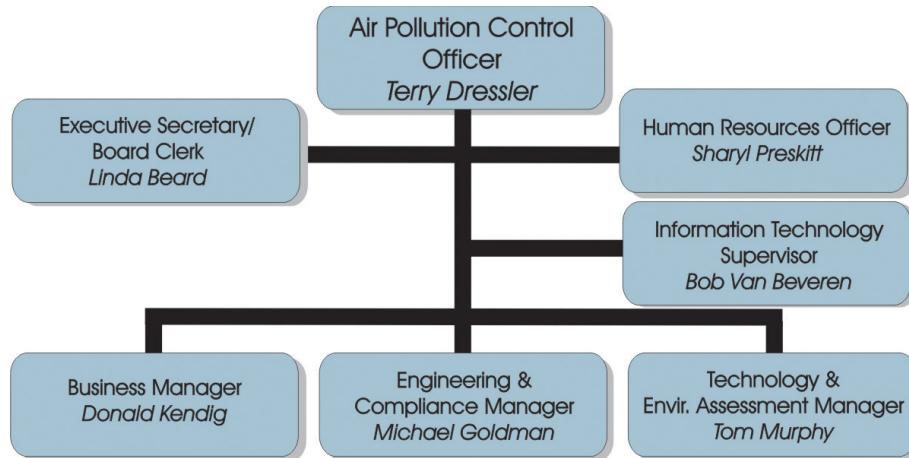
Councilmember Edwin Skytt

City of Solvang

Organization Chart

The APCD, with 51.25 full-time equivalent employees, have 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, the primary divisions and their respective managers, and the APCD programs as of June 30, 2008.



What We Do

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

Priority 1: Protection Of Public Health Through Air Quality Improvement

Goal: Continue to implement programs which directly reduce emissions.

Objectives:

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

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

Goal: Maintain a strong, science-based program.

Objectives:

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

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

Objectives:

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

Goal: Ensure adequacy of resources.

Objectives:

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

Priority 2: Community Involvement

Goal: Involve the community in air quality protection.

Objectives:

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

Priority 3: Continuously Improve Service

Goal: Maintain and improve relationships with all constituents.

Objectives:

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

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

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

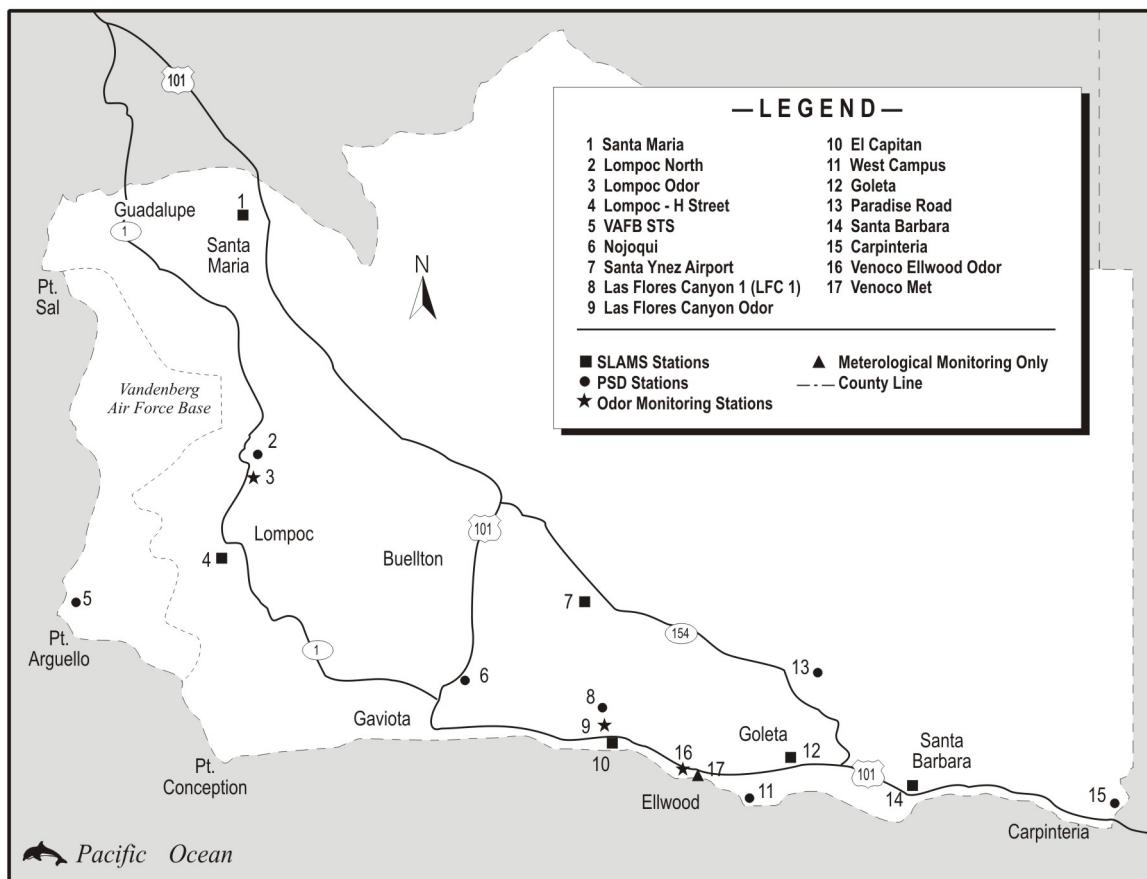
environmental documents for compliance with the California Environmental Quality Act; and educates and assists businesses and the public about our air and how we can keep it clean.

The state and federal governments have established ambient air quality standards for several air pollutants. The standards tell us how much of each pollutant can be in the air without causing harm to human health. The APCD is required to monitor air pollution levels to ensure these standards are met, and if they are not, to develop a strategy to reduce air pollution so they can be met. Figure 1, below, shows the locations of air monitoring stations in Santa Barbara County.

Our Air Quality

Santa Barbara County's air quality 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 over 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. Santa Barbara County is currently designated as attainment for the federal eight-hour ozone standard that replaced the previous federal one-hour standard. In addition, we attained the state one-hour ozone standard for the first time ever during 2004 through 2006. The California eight-hour ozone standard was implemented in June, 2006. The County violates this new state eight-hour ozone standard and continues to violate the state standard for PM₁₀ (particulate matter of 10 micrometers or less).

Santa Barbara County 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, adopted by the APCD Board in October 1997. This budget is available at www.sbcapcd.org/apcd/budget.htm.

Clean Air Planning – During Fiscal Year (FY) 2007-08, staff effort focused on obtaining State and Federal approval of our 2007 Clean Air Plan to comply with the new federal eight-hour ozone standard. The U.S. Environmental Protection Agency (EPA) has also revised their particulate matter standards and eight-hour ozone standard, and staff will be working closely with EPA to determine the specific planning requirements for these new health-based standards.

Business Focus – Staff implemented a new agricultural registration program (Rule 1201), adopted by the APCD Board, that is consistent across neighboring San Luis Obispo and Ventura counties. The regulations primarily affect Diesel-powered water and well pumps, not mobile equipment such as tractors or trucks. In addition, the APCD implemented a new boiler rule (Rule 361) to require nitrogen oxides (NOx) control techniques on mid-sized boilers, as well as modified our internal combustion engine rule 333 for NOx control techniques.

Pollution from Marine Shipping – Large oceangoing ships are one of the last uncontrolled and unregulated major sources of air pollution. The APCD initiated two separate lawsuits against the EPA over its failure to act on regulating large engines associated with oceangoing ships and the EPA's attempt to extend regulatory deadlines. Both of these lawsuits seek to compel the EPA to set clear deadlines by which to require significant emission reductions from both new and existing engines that propel these large ocean going ships.

Well before the lawsuits, the APCD has been working with members of the Maritime Working Group and APL, the world's eighth largest container carrier, on a pilot project to demonstrate the feasibility of retrofitting container ships.

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, in fact, fee revenue has dropped substantially.

As noted, the fee reductions over the last several years have been substantial. Some of these downturns were associated with workload reductions and some were not. As we committed to in the Strategic Plan, we continue to pursue alternatives to traditional funding sources.

The APCD has not proposed an increase in fees on regulated sources since 1991 other than the annual adjustment for Consumer Price Index change allowed within its rules, which, for FY year 2007-08 was 4.2%. In fact, a number of years between July 1, 1990 and the end of FY 1999-2000, the APCD did not raise fees by even the CPI, thereby foregoing 13.48% as of FY 2007-08. Compounding will cause this percentage to grow in future years.

Detailed charts of fee and expenditure trends along with other demographic information can be found in the Statistical Section.

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 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

Discretionary designations in the general fund of \$3,582,441 (42.5% of total general fund revenues) are above management's goal to maintain a minimum discretionary designation at 15% of General Fund revenues. Management intends to accumulate and hold these designations for the three-year re-evaluation revenue fluctuations, cash management due to the timing of a number of revenue sources during the year, and unforeseen events that might cause funding difficulties in future fiscal years. The base designations for the intended 15% were due to prior year accumulated interest earnings. The current excess designations are due to substantial one-time penalty assessments and two peak years of reevaluation fees just prior to FY 2007-08. The additional discretionary designations could be used to prefund capital replacement needs, lowering annual reserve costs, and prefunding retiree health obligations, which would lower ongoing retiree health care cost, among other one-time options.

Other Information

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, 2008 is \$7,234,577 (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 large brokerage firm, Alliant Insurance Services, Inc. APCD maintains all risk property coverage with replacement cost valuation for insurable values of approximately \$1,000,000,000 with a deductible of \$10,000. A detailed listing of insurance coverages may be found under Note X of the basic financial statements.

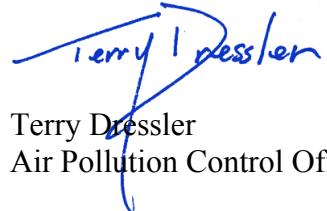
Loss control activities are managed by APCD's staff assigned to risk management activities. Staff performs loss prevention inspections and employee safety training to minimize potential human and property losses, and establish compliance with Cal/OSHA regulations.

Acknowledgments

The preparation of this comprehensive annual financial report is the result of a coordinated effort by the entire APCD staff. We would like to acknowledge the special efforts of the Fiscal Section and our independent auditors, Nasif, Hicks, Harris & Co., for their assistance in the report preparation.

Recognition is also given to the Board for their 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,



Terry Dressler
Air Pollution Control Officer



Donald C. Kendig

Donald Kendig, CPA
Business Manager



Santa Barbara County
Air Pollution Control District

Comprehensive Annual Financial Report
Year Ended June 30, 2008

FINANCIAL SECTION

Independent Auditors' Report

Management's Discussion and Analysis

Financial Statements

Required Supplementary Information

NASIF, HICKS, HARRIS & Co., LLP

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March 25, 2009

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and major fund of the Santa Barbara County Air Pollution Control District (APCD) as of and for the year ended June 30, 2008, which collectively comprise APCD's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of APCD's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of APCD, as of June 30, 2008, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2009, on our consideration of APCD's internal control over financial reporting and 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 the internal control over financial reporting or over compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The *management's discussion and analysis* and *budgetary comparison schedule* information as listed in the accompanying table of contents are not a required part of APCD's basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Nasif, Hicks, Harris & Co., LLP
Nasif, Hicks, Harris & Co., LLP

Management's Discussion and Analysis (Unaudited)

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

As management of the Air Pollution Control District of the County of Santa Barbara, California (the 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 ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the APCD's basic financial statements, which immediately follow this section.

Financial Highlights

Government-wide Highlights

The assets of the APCD exceeded its liabilities at the close of the most recent fiscal year by \$7,386,404 (*net assets*):

- \$381,832 represents the APCD's investment in capital assets, less any related outstanding debt used to acquire those assets (*invested in capital assets, net of related debt*).
- \$7,004,572 represents (*unrestricted*) net assets and may be used to finance the APCD's day-to-day operations without constraints established by legal requirements.

Highlights of the APCD's General Fund

As of the close of the fiscal year, the APCD's governmental funds reported combined fund balances of \$7,362,761. This amount represents entirely the amount of the General Fund, and an increased 14.4%, or \$929,517 from the prior year. Of that amount, approximately 99.8% or \$7,347,725 is available for spending, but *designated* for future use. This equates to 98.0% of General Fund expenditures for the year.

\$550 and \$14,486 are reserved for imprest cash and employee loans, respectively. A schedule of the reserved and designated fund balances can be found in Note II of the notes of the basic financial statements.

Capital Assets and Debt Administration

The APCD's investment in capital assets (net of accumulated depreciation) decreased \$119,794 (or 23.9%) to \$381,832. During the fiscal year, the APCD purchased two hydrocarbon analyzers, three ozone analyzers, one carbon monoxide analyzer, one PM₁₀ Monitor, and one ambient data system controller, and disposed of one vehicle, three NOx analyzers, one carbon monoxide analyzer, one obsolete data logger, and one high density tape drive including accessories.

The APCD's debt or better described as liability for employee compensated absences, decreased \$23,397 (or 6.1%) from \$381,586 to \$358,189.

Overview of the 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, and 2) Notes to the Basic Financial Statements. The APCD's report also includes required supplementary information 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. These financial statements include the *Statement of Net Assets* and the *Statement of Activities*.

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

The Statement of Activities reports the most recent fiscal year changes to the APCD's net assets, also on a full accrual basis. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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

The APCD's government-wide financial statements are presented on pages 19 and 21, 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. As a single purpose single fund entity, the APCD only utilizes governmental funds to account for its activities.

Governmental Funds

The fund financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance. These are prepared on the modified accrual basis of accounting. The government-wide statements are prepared on the full accrual basis.

In general, these financial statements under the modified accrual basis have a short-term emphasis and for the most part, measure and account for cash and other assets that can easily be converted to cash. Specifically, cash and receivables collectible within a very short period of time are reported on the balance sheet. The capital assets such as land and buildings are not reported.

Fund liabilities include amounts that are to be paid within a very short period of time after the end of the fiscal year. The long-term liabilities are not included. The difference between a fund's total assets and total liabilities represents the fund balance.

The operating statements for governmental funds report only those revenues and expenditures that were collected in cash or paid with cash during the current period or very shortly after the end of the year.

The focus of the fund financial statements is narrower than that of the government-wide financial statements. To understand the long-term impact of the APCD's near-term financing decisions, compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. The reconciliation between the total fund balances can be found on page 20 and

the reconciliation of the total change in fund balances for all governmental funds to the change in net assets can be found on page 22.

Notes to the Basic Financial Statements

The notes to the basic financial statements, starting on page 23, provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the General Fund's budgetary comparison schedule and budgetary reconciliation.

Government-wide Financial Analysis

Our analyses focus on the net assets and changes in net assets of the APCD's governmental activities. The following schedule lists a condensed Statement of Net Assets as of June 30, 2008 along with June 30, 2007.

	Net Assets	
	Governmental Activities	
	June 30, 2008	June 30, 2007
Current assets	\$ 8,001,990	\$ 7,254,797
Capital assets	381,832	501,626
Total assets	8,383,822	7,756,423
Current and other liabilities	997,418	1,203,139
Total liabilities	997,418	1,203,139
Net assets:		
Invested in capital assets, net of related debt	381,832	501,626
Unrestricted	7,004,572	6,051,658
Total net assets	\$ 7,386,404	\$ 6,553,284

As noted earlier, net assets may serve over time as a useful indicator of the APCD's financial position. At the close of the most recent fiscal year, the APCD's assets exceeded *current and other liabilities* of \$997,418 by \$7,386,404. Net assets increased by \$833,120 due to revenues in excess of what was needed to fund operations.

The largest portion of the APCD's net assets (approximately 95 percent) is unrestricted. Some of those revenue sources, such as DMV fees, restrict expenditures for specific purposes, but do not require that they be returned if unspent in the current year. They may be used to meet the APCD's ongoing programs associated with them. Other revenues are discretionary and may be used for any ongoing obligations in carrying out day-to-day operations. The other five (5) percent of the APCD's net assets reflect its investment in capital assets used by APCD (e.g. building improvements, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding. (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 following schedule lists the changes in the APCD's net assets for the fiscal year ending June 30, 2008 along with June 30, 2007.

Changes in Net Assets		
	Governmental Activities June 30, 2008	Governmental Activities June 30, 2007
Revenues:		
Licenses, permits, and franchises	\$ 3,328,064	\$ 3,388,275
Use of money and property	279,247	329,306
Grants and subventions	2,838,854	2,800,513
Charges for services	1,935,857	2,305,517
Other	42,677	63,868
Total Revenues	<u>8,424,699</u>	<u>8,887,479</u>
Expenses:		
Air pollution control services:		
Salaries and benefits	4,945,130	4,933,554
Services and supplies	2,301,481	3,236,442
Debt Service		
Interest	--	--
Other Expenses	158,307	320,440
Depreciation	186,661	165,848
Total Expenses	<u>7,591,579</u>	<u>8,656,284</u>
Excess (deficiency) of revenues over expenses	833,120	231,195
Net Assets:		
Beginning of year	<u>6,553,284</u>	<u>6,322,089</u>
End of year	<u>\$ 7,386,404</u>	<u>\$ 6,553,284</u>

Governmental Activities

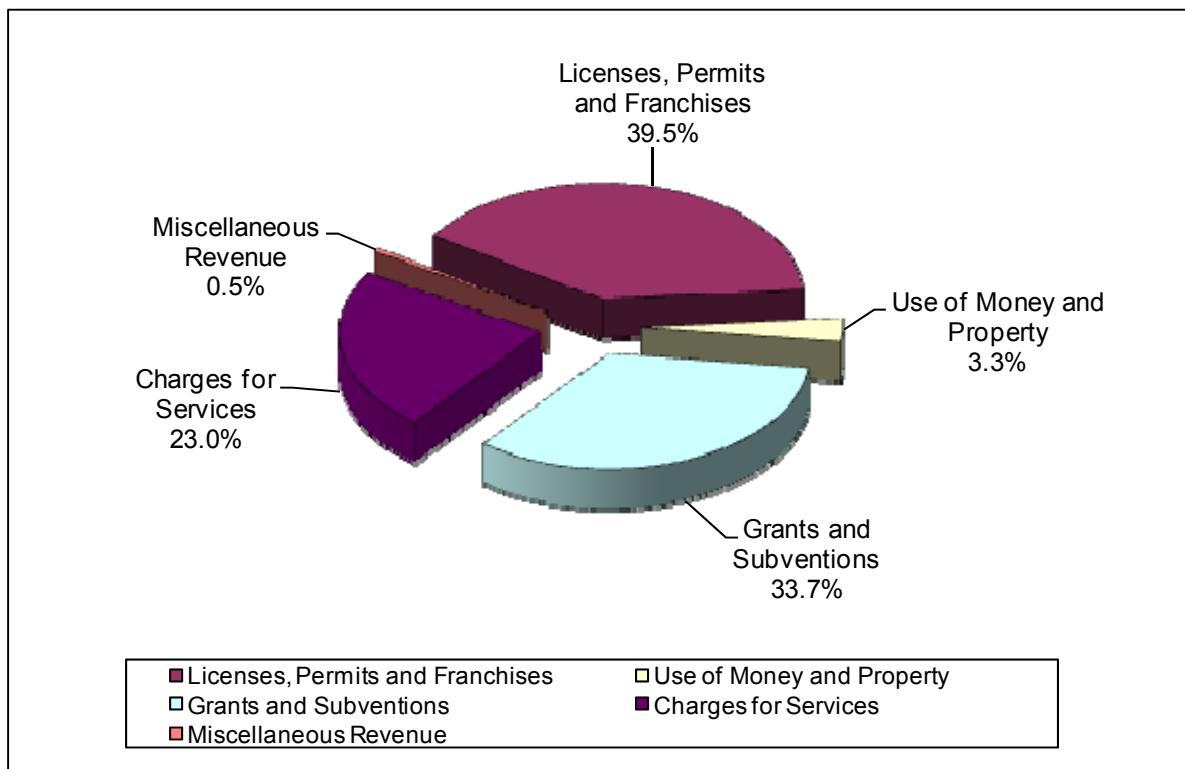
The objective of the Statement of Activities is to report the full cost of providing government services for that year. The format also indicates the extent to which the APCD is either self-financing or drawing from net assets in a given year.

The statement of activities presents information showing how the APCD's net assets changed during fiscal year 2007-08. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

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, policy support and special programs, whose funding have specific mandates.

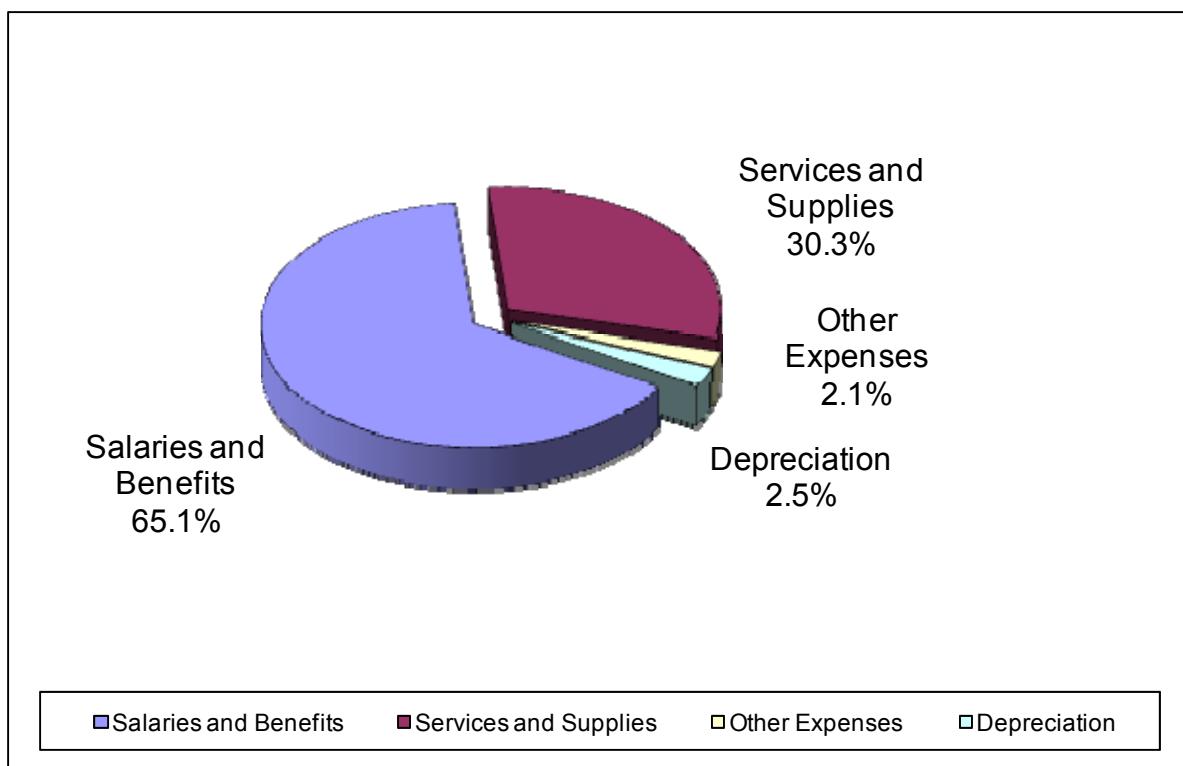
All of the revenues of the APCD were for air pollution control services and total \$8,424,699 for the year ending June 30, 2008 and \$8,887,479 for the year ending June 30, 2007. The chart and table below provide APCD revenues by object level.

For the year ending June 30, 2008, 82.4% or \$6,941,363 of those revenues are fee based, and a chart and table on page 45 of the Statistical Section provide a breakdown of those fees. It is important to note that DMV automobile registration fees of \$2,067,453 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 \$1,483,336 includes penalty settlements, State subvention, Federal EPA grants, use of money and property (interest), and revenue from other governmental agencies.



Revenues by Object Level	FY 07-08
Licenses, Permits and Franchises	\$ 3,328,064
Use of Money and Property	279,247
Grants and Subventions	2,838,854
Charges for Services	1,935,857
Miscellaneous Revenue	42,677
Total Fee Revenues	\$ 8,424,699

All of the expenses of the APCD were for air pollution control services and total \$7,591,579 for the year ending June 30, 2008 and \$8,656,284 for the year ending June 30, 2007. The chart and table below provide APCD expenses by object level.



Expenses by Object Level		FY 07-08
Salaries and Benefits	\$	4,945,130
Services and Supplies		2,301,481
Other Expenses		158,307
Depreciation		186,661
Total Expenses	\$	7,591,579

Financial Analysis of the APCD's Funds

Governmental Funds

As of the end of the fiscal year, the APCD's governmental fund reported an ending fund balance of \$7,362,761, an increase of \$929,517 in comparison with the prior year.

The General Fund is the operating fund of the APCD, and as a single purpose entity, is the only fund type reported. \$15,036 of the General Fund balance is reserved with the remaining \$7,347,725 unreserved, and designated for future use. The designated amount represents the APCD's intended use of the financial resources in future periods. Components of the designations are presented under the notes to the basic financial statements. Two measures of the General Fund's liquidity are the comparison of both unreserved fund balance and total fund balance to total operating expenditures. Unreserved General Fund balance and total General Fund balances represent 98 and 98.2 percent, respectively, of total General Fund operating

expenditures of \$7,495,182. Prior year measures were 74.1 and 74.2 percent, respectively, of total General Fund operating expenditures of \$8,666,732. Unreserved 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.

Beginning fiscal year 2007-08, fee rates increased 3.4 percent which was consistent with the change in the California Consumer Price Index (CPI) to recover the cost of APCD programs; however, it is important to note that the APCD has not proposed any supplemental increases above CPI since 1991. In fact, a number of years between July 1, 1990 and the end of fiscal year 1999-2000, the APCD did not raise fees by even the CPI, thereby foregoing 13.94% as of fiscal year 2007-08. Compounding will cause this percentage to grow in future years. In addition, other fees have actually decreased, some associated with workload and some not. As a result, we continue to pursue alternatives to traditional funding sources.

The last important ingredient to fluctuations in General Fund Balance relates to permit re-evaluations that occur over a three-year cycle. Currently, two of the three years will yield a surplus with the other one yielding a deficit. This cycle can change depending on the year new rules are adopted, and new permits are issued and entered into the three-year re-evaluation cycle. Fiscal year 2007-08 was a deficit year for permit re-evaluations, and 2008-09 is forecasted to be a surplus year. The fiscal year 2007-08 deficit was offset by higher than expected penalty settlements, emission fees, and interest, as well as staffing vacancies, which allowed the APCD to place funds into savings, as opposed to drawing from them.

General Fund Budgetary Highlights

The fiscal year 2007-08 amended budget compared to the adopted budget reflects an increase in the total budgeted revenues of \$7,955 and no change in budgeted expenditures.

A use of prior year fund balance of originally \$1,374,169 was budgeted for fiscal year 2007-08 and amended to a use of \$1,366,214, and at the end of the fiscal year, was actually a savings of \$929,517. This resulted in a positive variance of \$2,303,686 between originally adopted budget and actual amount, and a positive variance of \$2,295,731 between the final adopted budget and actual amount. The following factors contributed to this variance.

Revenues

Licenses, Permits, and Franchises – unanticipated evaluation fees of \$63,512, asbestos fees of \$61,484, re-evaluation fees of \$35,399, filing fees of \$79,986, emission fees of \$124,131, and penalty settlements of \$253,287 above budget contributed to the excess of \$573,655.

Use of Money and Property – an unanticipated \$111,292 of interest above budget was earned on higher than anticipated fund balances at a higher than anticipated rate.

Expenditures

Salaries and Benefits – were \$252,971 lower than budgeted primarily due to vacancies resulting from prior year retirements and extended absences due to illness covered by State Insurance.

Services and Supplies – were \$1,330,417 lower than originally budgeted primarily due to less grant activity.

Capital Outlay – was \$33,133 lower than budgeted most notably due to the deferral of a \$15,000 Information and Technology Division project and \$11,089 in Data Acquisition System (DAS) savings.

Capital Assets and Debt Administration

Capital Assets

The APCD's investment in capital assets was \$381,832 (net of accumulated depreciation of \$1,437,497) as of June 30, 2008 representing a decrease of \$119,794 (or 23.9%) over the prior year. This investment in capital assets includes furniture, laboratory equipment, air monitoring stations, computer and office equipment, and APCD vehicles, which are mostly hybrid vehicles.

The decrease in capital assets reflects the disposal of one vehicle, three NOx analyzers, one carbon monoxide analyzer, one obsolete data logger, and one high density tape drive including accessories. Whenever possible, the District donates old equipment to other districts, and old computers to schools.

The increase in capital assets reflects the purchase of two hydrocarbon analyzers, three ozone analyzers, one carbon monoxide analyzer, one PM 10 Monitor, and one ambient data system controller.

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

Debt

The APCD's debt outstanding was \$358,189 as of June 30, 2008, representing a decrease of \$23,397 (or 6.1%) all of which is considered current, due within one year, and represents employee compensated absences (See Note VIII).

Economic Factors and Next Year's Budget and Rates

The following known factors were considered in preparing the APCD's budget for FY 2007-08.

- The FY 2008-09 budget contains a 3.0% 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.
- FY 2008-09 will be a peak year in our three-year re-evaluation fee cycle. Compared to adopted FY 2007-08 fees of \$343,060, FY 2008-09 is adopted at \$874,400.
- The APCD maintained staffing at 51.25 Full time Equivalents (FTEs).
- The budget includes a 3.7% increase in salaries and benefits. This includes increases for employee negotiated salary agreements and increases to retirement rates.
- Services and supplies are stable.
- Federal and State funding is stable, as well as vehicle registrations.
- Capital outlay is reduced 15% to \$85,000 due to the completion of technology upgrades.

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

Requests for Information

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

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

As of June 30, 2008

	General Fund	Adjustments(1)	Statement of Net Assets
Assets			
Cash (note III)	\$ 7,088,174	\$ --	\$ 7,088,174
Restricted cash and investments (note IV)	454,211	--	454,211
Receivables:			
Accounts, net	387,659	--	387,659
Interest	57,826	--	57,826
Employee	14,120	--	14,120
Current assets	8,001,990	--	8,001,990
Capital assets, net of accumulated depreciation (note V)	--	381,832	381,832
Total assets	\$ 8,001,990	\$ 381,832	\$ 8,383,822
Liabilities			
Accounts payable	\$ 6,000	\$ --	\$ 6,000
Salaries and benefits payable	179,018	--	179,018
Employee compensated absences (note VIII)	--	358,189	358,189
Current liabilities	185,018	358,189	543,207
Permit holders payable (note IV)	454,211	--	454,211
Total liabilities	639,229	358,189	997,418
Fund balances/Net assets:			
Fund balances (note II):			
Reserved:			
Imprest cash	550	(550)	--
Employee loans	14,486	(14,486)	--
Designated	7,347,725	(7,347,725)	--
Total fund balances	7,362,761	(7,362,761)	--
Total liabilities and fund balances	\$ 8,001,990		
Net assets:			
Invested in capital assets, net of related debt		381,832	381,832
Unrestricted		7,004,572	7,004,572
Total net assets	\$ 7,386,404		\$ 7,386,404

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

See accompanying notes to the basic financial statements.

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

As of June 30, 2008

Fund Balances - Total Governmental Funds (General Fund)	\$ 7,362,761
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Amounts reported for governmental activities in the Statement of Net Assets 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 Assets as capital assets of APCD as a whole.

Capital assets	\$ 1,819,329	
Accumulated depreciation	(1,437,497)	
	<u>\$ 381,832</u>	381,832

Long term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets.

Compensated absences	<u>(358,189)</u>
Net Assets of Governmental Activities	<u>\$ 7,386,404</u>

See accompanying notes to the basic financial statements.

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

For the Fiscal Year Ended June 30, 2008

	General Fund	Adjustments (1)	Statement of Activities
Revenues:			
Licenses, permits, and franchises	\$ 3,328,064	\$ --	\$ 3,328,064
Use of money and property	279,247	--	279,247
Grants and subventions	2,838,854	--	2,838,854
Charges for services	1,935,857	--	1,935,857
Other	42,677	--	42,677
Total revenues	8,424,699	--	8,424,699
Expenditures/expenses:			
Air pollution control services:			
Salaries and benefits	4,968,527	(23,397)	4,945,130
Services and supplies	2,301,481	--	2,301,481
Other Expenses	158,307	--	158,307
Depreciation	--	186,661	186,661
Capital outlay	66,867	(66,867)	--
Total expenditures/expenses	7,495,182	96,397	7,591,579
Excess (deficiency) of revenues over expenditures/expenses	929,517	(96,397)	833,120
Fund balances/net assets:			
Beginning of year	6,433,244	120,040	6,553,284
End of year	\$ 7,362,761	\$ 23,643	\$ 7,386,404

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

See accompanying notes to the basic financial statements.

Santa Barbara County Air Pollution Control District
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Government-wide Statement of Activities

For the Fiscal Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds (General Fund)	\$ 929,517
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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 Assets, 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	\$ (186,661)	
Capital outlay	66,867	
	<u><u>\$ (119,794)</u></u>	(119,794)

Long-term compensated absences is reported in the Government-wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources.

Therefore, they are not reported as expenditures in governmental funds. 23,397

Changes in Net Assets of Governmental Activities	<u><u>\$ 833,120</u></u>
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See accompanying notes to the basic financial statements.

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 (The “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 Agency acts as a legal entity, separate and distinct from the County of Santa Barbara. As required by accounting principles generally accepted in the United States of America (GAAP), the accompanying basic financial statements present the activities of the APCD for which the APCD is considered to be financially accountable.

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

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

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The APCD in general considers revenues available if they are collected within 60 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when payment is due.

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

The accounts of the APCD are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

The APCD reports the following major governmental funds:

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

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

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

C. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The APCD's cash and cash equivalents are considered to be cash on hand, demand deposits and investments held by the County Treasurer in a cash management investment pool (the “pool”).

The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the County Treasurer must follow.

State statutes and the County's investment policy authorize the County Treasurer to invest in U.S. Government Treasury and Agency Securities, bankers' acceptances, commercial paper, corporate bonds and notes, repurchase agreements and the State Treasurer's Local Agency Investment Fund (LAIF). In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held by the County Treasurer are stated at fair value. The fair value of pooled investments is determined 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 (Board) has oversight responsibility for LAIF. The 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)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

3. 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 \$20,367 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, 2008. In addition the district has a payable for deposits by permit holders (See Note IV).

4. Capital Assets and Depreciation

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

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

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

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

5. Long-Term Obligations

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

6. Employee Compensated Absences

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

7. Fund Equity (Reserves and Designations)

Portions of fund balances are reserved for future use and are, therefore, not available for appropriation. Designation of unreserved fund balances in the General Fund indicates the APCD's plans for use of the financial resources in future periods.

8. Use of Estimates

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

II. RESERVED AND DESIGNATED FUND BALANCE

Fund balances, which are not available for appropriation or are not considered "expendable available financial resources", are reserved. Unreserved fund balances that have been earmarked by the Board for specified purposes are considered designated. Such reserved and designated fund balances at June 30, 2008 are as follows:

Reserved for:

Imprest Cash	\$ 550
Employee Loans	<u>14,486</u>
Subtotal reserves	\$ 15,036

Designated for:

ITG Projects	\$ 1,308,479
Accumulated Capital Outlay	448,702
Strategic Reserve	450,000
Monitoring	146,545
Dry Period Reserve	883,929
Unrealized Gains (FMV Adjustment)	7,955
Contingency	66,453
Data Acquisition System	558,010
Insurance Deductible	40,000
Special Investigations	20,000
DMV 2\$	997,998
DMV 4\$	297,595
Operational Activities	<u>2,122,059</u>
Subtotal designations	<u>7,347,725</u>
Total reserves and designations	<u>\$ 7,362,761</u>

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 in a cash management investment pool (the "pool"), for the purpose of increasing interest earnings through investment activities. Interest earned on pooled investments is apportioned quarterly to the General Fund based upon each fund's average daily deposit balance. The APCD has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2008 to support the value of shares in the pool.

Additional detailed 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 a proportional share (\$915) of the total bank balance is insured by Federal depository insurance of \$100,000. The remaining \$236,432 on deposit is uninsured and collateralized with securities held by the pledging financial institution but not in the APCD's or the County's name. Per Government Code section 53652, the depository is required to maintain a market value of at least 110% of the pledged collateral. At June 30, 2008 the value of pledged collateral was 145%.

At June 30, 2008, the carrying amount of the APCD's deposits was \$237,347.

B. Investments

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

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

1. Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Treasurer mitigates these risks by holding a diversified portfolio of high quality investments. The policy sets specific parameters by type of investment for credit quality, maturity length, and maximum

III. CASH AND INVESTMENTS – Continued

1. Credit Risk and Concentration of Credit Risk – Continued

percentage investment. For securities issued and fully guaranteed as to payment by an agency, or government sponsored enterprise of the U.S. Government the issuer shall be rated AAA by at least two of the three major rating services of Fitch, Moody's and S&P. Commercial paper obligations and negotiable certificates of deposit shall be rated by at least two of the three major rating services a minimum of F1 by Fitch, P-1 by Moody's and A-1 by S&P. Corporate bonds and notes shall be rated AA by at least two of the three major rating services of Fitch, Moody's and S&P if maturity is greater than three years and AA- if maturity is three years or less.

The following is a summary of the credit quality distribution by investment type as a percentage of fair value at June 30, 2008:

	<u>Credit Ratings</u>	<u>% of Portfolio</u>
Treasurer's pooled investments:		
LAIF	Unrated	5.06%
Commercial paper	A-2, P-1, F1	2.87
Commercial paper	A-1, P-1, F1	12.11
Commercial paper	A-1, P-2, F1	5.72
Corporate notes	Aa, AA	1.90
Corporate notes	Aa, AA, AA	9.07
Corporate notes	Aa, AA-,AA-	0.62
Corporate notes	Aa1, AA+	0.64
Corporate notes	Aaa, AAA	6.75
Negotiable certificates of deposit (CDs)	A-1, P-1, F1	2.34
Government agency bonds	AAA	51.92
Total Treasurer's pooled investments		<u>100.00%</u>
Directed investments:		
Government agency bonds	AAA	<u>100.00%</u>
Investments held with fiscal agents:		
Government agency bonds	AAA	<u>100.00%</u>

At the time of purchase, the County'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, 2008, more than 5% of the APCD's and County's pooled investments were invested in the following issuers:

Issuer	Issuer Type	Fair Value Holdings	Percentage Holdings
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 900,705	12.45%
Federal Home Loan Bank	Government Sponsored	\$ 1,450,533	20.05%
Federal National Mortgage Association	Government Sponsored	\$ 1,036,715	14.33%
Federal Farm Credit Banks	Government Sponsored	\$ 368,963	5.10%

III. CASH AND INVESTMENTS – Continued

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 County, on the APCD's behalf, are deposited in trust for safekeeping with a custodial bank different from the County'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 (5) years and that non-short 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.

Interest earned on pooled investments is apportioned quarterly to APCD's participating funds based upon each fund's average daily cash balance. Unrealized gains and losses are also apportioned quarterly to participating funds based upon the fund's ending cash balance. Interest and net investment income consisted of the following for the fiscal year ended June 30, 2008:

	Pool
Interest income	\$ 274,613
Realized gain	15,189
Administration and audit fees	(9,857)
Securities Lending	70
Miscellaneous Adjustments	(768)
Total net investment income	<u><u>\$ 279,247</u></u>

The Treasurer purchases securities at a discount from face value to earn higher than nominal rates of return. Under GASB 31 such discount, when realized, is considered gain rather than interest. Interest earnings for the fiscal year amounted to \$274,613. The net realized gain on investments sold or matured during the fiscal year was \$15,189. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s).

III. CASH AND INVESTMENTS – Continued

C. Securities Lending

The Santa Barbara County Treasurer's Pool is authorized by state statute and the Treasurer's Investment Policy to lend its investment security holdings. The securities lending program is managed by Union Bank (the Bank) which also serves as the Treasurer's custodial bank. The County Treasurer or the Bank may terminate the agreement to lend securities, without penalty, upon seven days notice.

Under GASB 28, "*Accounting and Financial Reporting for Securities Lending Transactions*," cash received as collateral on securities lending transactions and investments made with that cash should be reported as assets. Liabilities resulting from these securities lending transactions also should be reported in the balance sheet. The total amount of cash collateral received by the Treasurer at June 30, 2008 amounted to \$7,643,000: \$2,981,000 of the collateral is held as an asset and associated liability in the General Fund while the remaining \$4,662,000 is held as an asset and associated liability within the Fiduciary Funds. The allotment is based on external equity of pool participants comprising 61% of the investment pool. 100% of APCD's cash is a part of the external equity of pool participants and the APCD's portion of the collateral is \$69,911.

The Bank may lend securities only to eligible borrowers, as defined by the Treasurer. The term for each lending transaction is limited to a maximum of seven days. The Bank and its affiliates are not eligible borrowers. Cash collateral equaling 102% of the total value of the loaned securities is required. The Bank invests cash collateral on behalf of the County in permitted investments. Collateral is marked to market as is reasonable, and the Bank has the right to demand additional collateral as necessary. Such collateral received by the Bank is held separate and apart from the Bank's own funds and securities. The Treasurer may not pledge or sell any collateral securities unless the borrower defaults. Securities lending transactions are restricted to 20% of the base value of the portfolio.

The securities lent remain in the Treasurer's Statement of Assets as the APCD retains the risks and rewards of changes in the value of the underlying securities during the term of the loan, has a contractual right to the income distributions, and retains the right to sell the securities. The term to maturity of securities loans is generally matched with the maturity date of the term loan. All securities lending investments as of June 30, 2008 are overnight investments with next day maturities. The collateral received by the Treasurer exceeds the amount on loan. Accordingly, the Treasurer is not exposed to custodial credit risk.

The APCD's securities lending balances at June 30, 2008 are as follows:

Securities Lent	Underlying Securities	Securities Collateral Value
Lent for securities collateral:		
Corporate notes	\$ 68,054	\$ 69,911

There are no provisions for agent indemnification of the securities lending transactions. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior-period losses during the fiscal year. There are no income distributions owing on the securities lent.

III. CASH AND INVESTMENTS – Continued

D. Cash Held by the County Treasurer

The following is a summary of investments held by the County Treasurer, on behalf of the APCD, as of June 30, 2008:

Investment	Cost	Fair Value	Interest Rate Range	Maturity Date/Range	Weighted Average Maturity
Treasurer's pooled investments:					
Commercial paper	\$ 1,567,211	\$ 1,569,535	2.32-3.08%	7/08-8/08	27 days
Negotiable CDs	169,402	169,220	2.58-3.55%	7/08-5/09	164 days
Corporate bonds	1,374,999	1,373,112	2.85-7.38%	8/08-8/12	1.41 years
Government agency bonds	3,756,358	3,756,830	0.00-6.00%	7/08-5/13	2.85 years
Local agency investment fund	366,276	365,880	3.11%	n/a	n/a
Total investments	<u>\$ 7,234,246</u>	<u>7,234,577</u>			
Securities lending collateral		69,911			
Cash in banks:					
Non-interest bearing deposits		237,347			
Cash on Hand		<u>550</u>			
Total cash and investments		<u>\$ 7,542,385</u>			
Total unrestricted cash and investments		\$ 7,088,174			
Restricted cash and investments (note IV)		454,211			
Total cash and investments		<u>\$ 7,542,385</u>			

E. Condensed Statement of Net Assets and Changes in Net Assets for the Treasurer's Investment Pool

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2008:

Statement of Net Assets

Net assets held for pool	\$ 7,234,577
<hr/>	
Equity	\$ 7,234,577
Total equity	<u>\$ 7,234,577</u>

Statement of Changes in Net Assets

Net assets held for pool participants, July 1, 2007	\$ 6,401,457
Net change in investments by pool participants	833,120
Net assets held for pool participants, June 30, 2008	<u>\$ 7,234,577</u>

IV. RESTRICTED CASH AND INVESTMENTS AND PERMIT HOLDERS PAYABLE

Cash and investments at June 30, 2008 that are restricted by legal or contractual requirements are listed in the following table. An offsetting permit holders payable has also been recorded at an equivalent amount.

General Fund

Permit holder deposits	\$ 424,999
Air Resources Board (ARB) fees	<u>29,212</u>
Total restricted cash and investments	<u>\$ 454,211</u>

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

JUNE 30, 2008

V. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental activities:				
Capital assets, being depreciated:				
Furniture	\$ 399,028	\$ -	\$ -	\$ 399,028
Equipment	<u>1,445,442</u>	<u>66,867</u>	<u>(92,008)</u>	<u>1,420,301</u>
Total capital assets, being depreciated	<u>1,844,470</u>	<u>66,867</u>	<u>(92,008)</u>	<u>1,819,329</u>
Less accumulated depreciation for:				
Furniture	(229,816)	(57,004)	-	(286,820)
Equipment	<u>(1,113,028)</u>	<u>(129,657)</u>	<u>92,008</u>	<u>(1,150,677)</u>
Total accumulated depreciation	<u>(1,342,844)</u>	<u>(186,661)</u>	<u>92,008</u>	<u>(1,437,497)</u>
Total capital assets, net	<u>\$ 501,626</u>	<u>\$ (119,794)</u>	<u>\$ -</u>	<u>\$ 381,832</u>

VI. LEASE OBLIGATIONS

Operating Leases

The following is a schedule by years of future minimum rental payments required under operating leases entered into by the APCD that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008. A significant portion of the lease obligation is with the County of Santa Barbara (See Note VII).

Year Ending June 30,	Casa Nueva	Aegis	Cook St.	Total
2009	\$ 236,636	\$ 13,688	\$ 54,000	\$ 304,324
2010	236,636	13,688	54,000	304,324
2011	236,636	13,688	49,500	299,824
2012	236,636	13,688	-	250,324
2013	236,636	13,688	-	250,324
2014-2018	1,183,180	68,439	-	1,251,619
2019-2023	1,183,180	20,531	-	1,203,711
2024-2028	1,183,180	-	-	1,183,180
2029-2033	1,143,740	-	-	1,143,740
Total Minimum Payments Required	<u>\$ 5,876,460</u>	<u>\$ 157,410</u>	<u>\$ 157,500</u>	<u>\$ 6,191,370</u>

Total rental expenditure/expense for the year ended June 30, 2008 was \$304,324.

VII. RELATED PARTY TRANSACTIONS

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

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

APCD typically reimburses the County of Santa Barbara for a share of County overhead and other services costs. For the year ended June 30, 2008, the County of Santa Barbara was paid \$133,988 for allocated overhead costs.

APCD has two leases with the County of Santa Barbara. One is for the Casa Nueva building, with a 30 year term, and the other is for the Aegis building, with a 20 year term, with total minimum remaining payments of \$5,876,460 and \$157,410 respectively (See Note VI).

VIII. EMPLOYEE COMPENSATED ABSENCES

The following is a summary of the employee compensated absences of the APCD for the year ended June 30, 2008:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
Governmental activities:					
Employee compensated absences	\$ 381,586	\$ 362,079	\$385,476	\$ 358,189	\$ 358,189
Total employee compensated absences	<u>\$ 381,586</u>	<u>\$ 362,079</u>	<u>\$385,476</u>	<u>\$ 358,189</u>	<u>\$ 358,189</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, 2008, 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.

The APCD has entered into various Board approved contracts which have outstanding balances totaling \$297,516 as of June 30, 2008. These contracts involve future commitments to purchase goods and services during the period July 1, 2008 through September 27, 2011.

X. RISK FINANCING

The Air Pollution Control District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. These risks are covered by commercial insurance purchased from independent third parties. There have been no reductions in insurance coverage as compared to the previous year, only changes in how the types of coverage and deductibles are described. For the past three fiscal years, no settlement amounts have exceeded insurance coverage.

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

JUNE 30, 2008

X. RISK FINANCING – Continued

The APCD carries:

Description	Limit	Deductible
Special District Risk Management Authority (SDRMA)		
Worker's Compensation	\$ 200,000,000	\$ -
Employer's Liability	5,000,000	-
Alliant Crime Insurance Program (ACIP)		
Government Crime Policy on Discovery including the following:	3,000,000	2,500
Employee Theft including Faithful Performance of Duty;		
Forgery or Alteration; Inside the Premises - Theft of Money and Securities and Robbery or Safe Burglary; Outside the Premises - Money, Securities and Other Property; Computer Fraud; Funds Transfer Fraud; and, Money Orders & Counterfeit Paper Currency		
Public Entity Property Insurance Program (PEPIP)		
All Perils, Coverages and Insured/Members combined, subject to the following per occurrence and/or aggregates sub-limits as noted	1,000,000,000	10,000
Per Member/Entity per Occurrence subject to \$200,000,000 Annual Ag.	100,000,000	10,000
Combined Business Interruption and Rental Income	100,000,000	10,000
Extra Expense and Expediting Expenses	50,000,000	10,000
Errors and Omissions	40,000,000	10,000
Miscellaneous Unnamed Locations for existing Members, Course of Construction, Additions, and Increase Cost of Construction, Transit, and Off Premises Services Interruption	25,000,000	10,000
Scheduled Landscaping (Subject to \$25,000/25 gal limit per item)	5,000,000	10,000
Per Occurrence and Annual Aggregate for Earthquake Shock and Flood on Licensed Vehicles	5,000,000	5,000
Money, Securities, Unscheduled Fine Arts, Contingent Business Interruption, Watercraft up to 27 feet	2,500,000	10,000
Unscheduled Landscaping (Subject to \$25,000/25 gal limit per item) and Unscheduled Animals (Subject to \$50,000 per Animal)	1,000,000	10,000
Jewelry, Furs, Precious Metals and Precious Stones, Claims Preparation Expenses, and Personal Property Outside of the USA	500,000	10,000
Accidental Contamination per Occurrence and Annual Aggregate	250,000	10,000
Boiler and Machinery, Breakdown, Combined Property Damages and Business Interruption/Extra Expense	100,000,000	5,000
Special Liability Insurance Program (SLIP)		
Maximum Per Occurrence Limit for all Coverages Combined	5,000,000	n/a
Personal Injury (Including Bodily Injury and Property Damage)	5,000,000	2,500
Owned Automobile Liability	5,000,000	2,500
Uninsured Motorist	1,000,000	2,500
Non-Owned and Hired Automobile	5,000,000	2,500
Public Officials Errors and Omissions	5,000,000	2,500
Employment Practices Liability	2,000,000	10,000
Annual Aggregate Limits		
Products / Completed Operations	5,000,000	n/a
Public Officials Errors and Omissions	5,000,000	n/a
Employment Practices Liability	2,000,000	n/a
Sublimits		
Fire Damage Liability (Sublimit of Personal Injury/Property Damage Coverage Limit)	1,000,000	2,500

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

XI. RETIREMENT PLANS (Santa Barbara County Employees' Retirement System)

Plan Description

The Santa Barbara County Employees' Retirement System ("SBCERS") was organized under the provisions of the 1937 County Employees Retirement Act, effective on January 1, 1944. 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, Santa Barbara Coastal Vector Control District, Goleta Cemetery District, Santa Maria Cemetery District, Oak Hill Cemetery District, Carpinteria Cemetery District, Summerland Sanitary District, Santa Barbara County Association of Governments ("SBCAG"), and the Santa Barbara County Superior Court.

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

Fiduciary Responsibility

The Retirement System is controlled by the Board of Retirement that is a fiduciary for the accounting and control of member and employer contributions, investment income and member benefits. The Retirement System publishes its own Comprehensive Annual Financial Report and receives its own independent audit. The Retirement System is also a legally separate entity from the APCD and not a component unit.

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.

Funding Policy

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

Employer contribution

Employer and employee contribution rates are as follows:

<u>Open for New Enrollment</u>	<u>Description</u>	<u>Employer Contribution</u>	<u>Employee Contribution</u>
APCD Plan (Tier 2)	All APCD employees hired on or after July 3, 1995	20.45%	8.33 – 10.41%
<u>Closed to new Enrollment</u>	<u>Description</u>	<u>Rates</u>	<u>Rates</u>
APCD Plan (Tier 1)	Employees hired before July 2, 1995 may continue the plan	19.93%	4.16 – 5.21%

XI. RETIREMENT PLANS – Continued

Annual Pension Cost

The annual required contribution for the current year was determined as part of an actuarial valuation performed as of June 30, 2006. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8.16%; (2) inflation element in wage increases of 4.0%; and (3) salary merit and longevity increases of 2.0%. Unfunded liabilities resulting from annual experience gains and losses are amortized using the level percentage of the projected payroll over 15 years. Actuarial gains and losses resulting from changes in assumptions are amortized over a 15 year period.

Three-Year Trend Information

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

<u>Fiscal Year Ending</u>	<u>Actuarial Valuation Date</u>	<u>Contributions</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contribution</u>
6/30/2006	6/30/2004	\$ 663,575	\$ 663,575	100%
6/30/2007	6/30/2005	736,631	736,631	100%
6/30/2008	6/30/2006	784,358	784,358	100%

XII. DEFERRED COMPENSATION

APCD 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. 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 \$15,500 (in whole dollars), 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.

APCD Social Security Compliance Deferred Compensation Plan

The 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. The APCD's contribution equals 1.5% of the employee's gross compensation. In addition, the employee contributes 1.5%, and has the option to contribute additional earnings up to the Section 457 of the Internal Revenue Code maximums.

XII. DEFERRED COMPENSATION – Continued

APCD Social Security Compliance Deferred Compensation Plan – Continued

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 each of the two preceding years are as follows:

<u>Fiscal Year Ending</u>	<u>Contributions</u>
6/30/2006	\$ 819
6/30/2007	229
6/30/2008	529



**Santa Barbara County Air Pollution Control District
General Fund – Budgetary Comparison Schedule**

For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Variance with Final Budget -	
	Original	Final	Budgetary Basis	Positive (Negative)
Revenues:				
Licenses, permits, and franchises	\$ 2,754,409	\$ 2,754,409	\$ 3,328,064	\$ 573,655
Use of money and property	160,000	167,955	279,247	111,292
Grants and subventions	2,841,104	2,841,104	2,838,854	(2,250)
Charges for services	1,976,155	1,976,155	1,935,857	(40,298)
Other	30,640	30,640	42,677	12,037
Total revenues	7,762,308	7,770,263	8,424,699	654,436
Expenditures:				
Air pollution control services:				
Salaries and benefits	5,221,498	5,221,498	4,968,527	252,971
Services and supplies	3,631,898	3,631,898	2,301,481	1,330,417
Other Expenses	183,081	183,081	158,307	24,774
Capital outlay	100,000	100,000	66,867	33,133
Total expenditures	9,136,477	9,136,477	7,495,182	1,641,295
Excess (deficiency) of revenues over expenditures/expenses	(1,374,169)	(1,366,214)	929,517	2,295,731
Fund balances:				
Beginning of year	6,433,244	6,433,244	6,433,244	--
End of year	\$ 5,059,075	\$ 5,067,030	\$ 7,362,761	\$ 2,295,731

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

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

June 30, 2008

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. Budgets are prepared on the modified accrual basis of accounting consistent with generally accepted accounting principles.

Annually, the Board of Directors conducts two public hearings for the discussion of a proposed budget. At the conclusion of the hearings, the Board adopts the final budget. All appropriations lapse at fiscal year end and are subject to reappropriation as part of the following year's budget. The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the object level. The Air Pollution Control Officer is delegated authority to make changes to the annual budget, provided it is within and between the salaries and benefits, services and supplies, and 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.

One supplemental revenue change to increase budgeted use of money and property by \$7,955 was made by the Auditor-Controller during the year for the Fair Market Value of Assets held in the County Treasury, which also increased the total budgeted revenues by \$7,955.

A use of prior year fund balance of originally \$1,374,169 was budgeted for fiscal year 2007-08 and amended to a use of \$1,366,214, and at the end of the fiscal year, was actually a savings of \$929,517. This resulted in a positive variance of \$2,303,686 between originally adopted budget and actual amount, and a positive variance of \$2,295,731 between the final adopted budget and actual amount.

Please see the General Fund Budgetary Highlights Section of the MD&A, beginning on page 17, for more details.





Comprehensive Annual Financial Report
Year Ended June 30, 2008

STATISTICAL SECTION (UNAUDITED)

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

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

General Fund Fee Revenues by Fee Source – Fiscal Year 2007-08

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

Emission Fee Revenues – Last Ten Fiscal Years

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

Santa Barbara County Smog Trend – Last Ten Calendar Years

Santa Barbara County Population by City – Last Ten Calendar Years

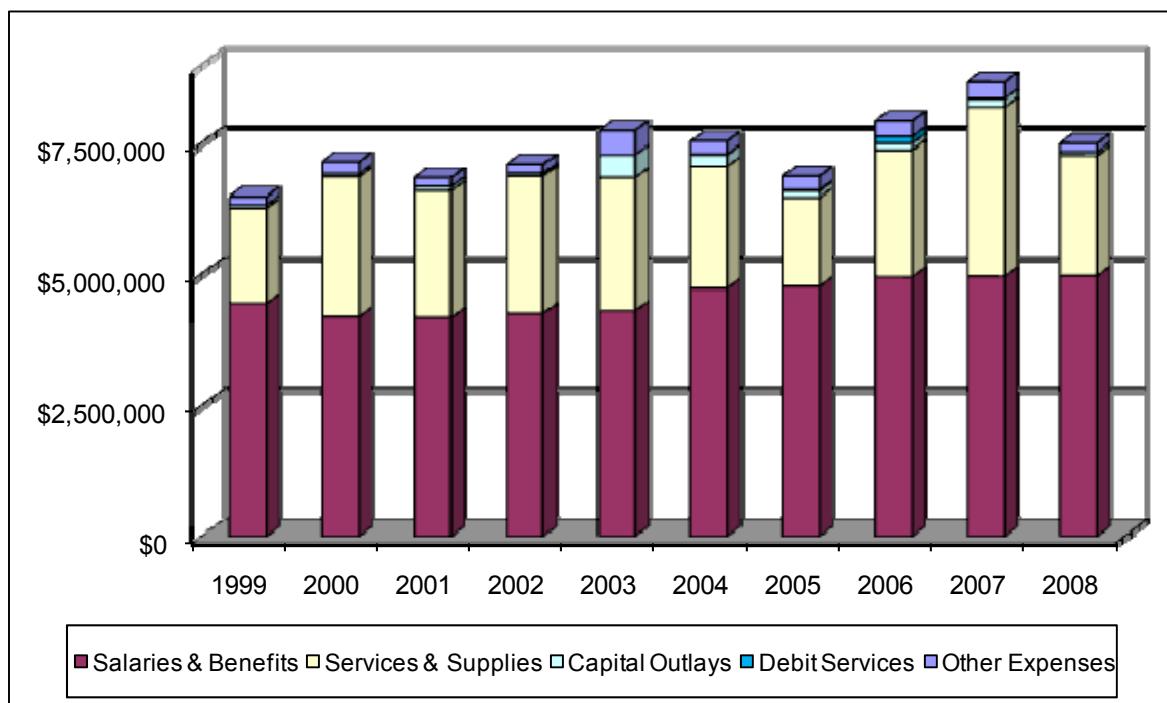
Santa Barbara County Civilian Employment – Last Ten Calendar Years

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

Demographic and Miscellaneous Statistics

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

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

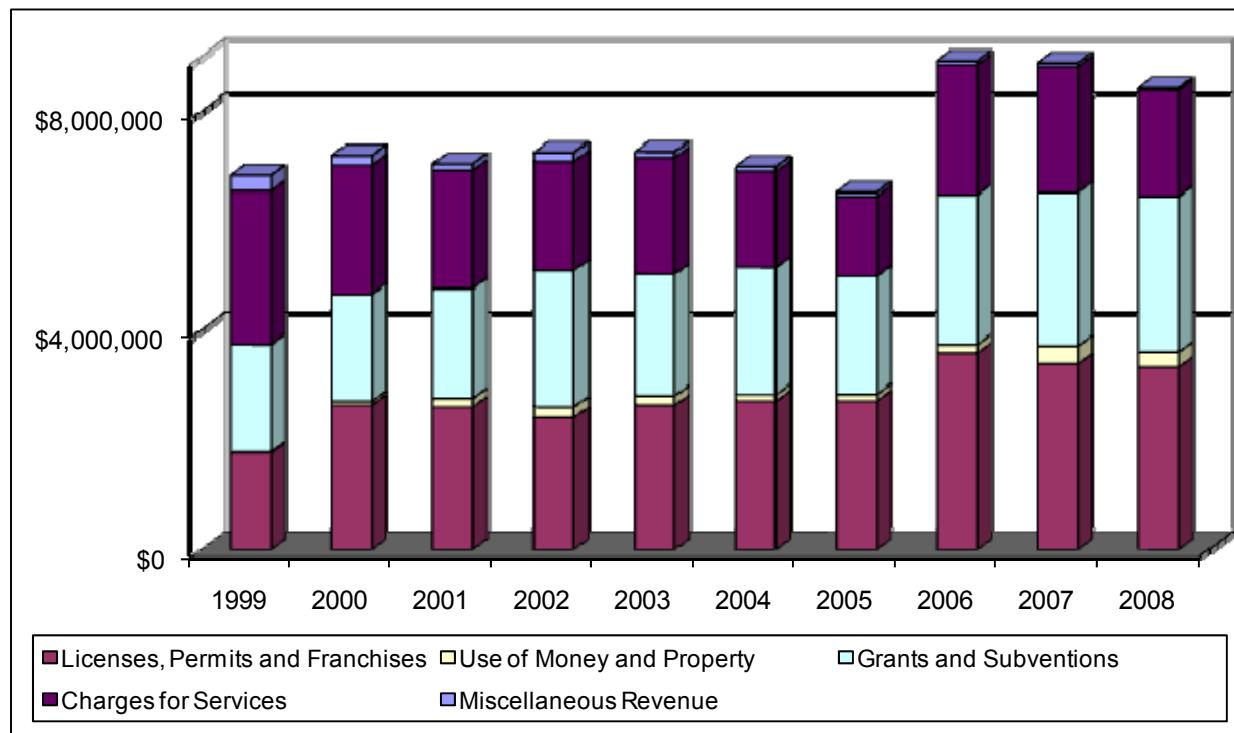


Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Other Expenses	Debt Service	Total Expenditures
1999	\$ 4,450,217	1,816,854	59,332	155,876	-	\$ 6,482,279
2000	\$ 4,194,863	2,667,598	58,328	225,173	-	\$ 7,145,962
2001	\$ 4,175,933	2,413,114	84,750	169,715	-	\$ 6,843,512
2002	\$ 4,257,007	2,618,399	52,393	168,575	-	\$ 7,096,374
2003	\$ 4,306,736	2,537,410	434,760	459,495	-	\$ 7,738,401
2004	\$ 4,730,443	2,329,006	222,384	241,323	11,434	\$ 7,534,590
2005	\$ 4,765,849	1,699,441	123,324	262,062	23,079	\$ 6,873,755
2006	\$ 4,944,060	2,425,606	124,339	301,565	130,342	\$ 7,925,912
2007	\$ 4,956,097	3,236,442	153,753	320,440	-	\$ 8,666,732
2008	\$ 4,968,527	2,301,481	66,867	158,307	-	\$ 7,495,182

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

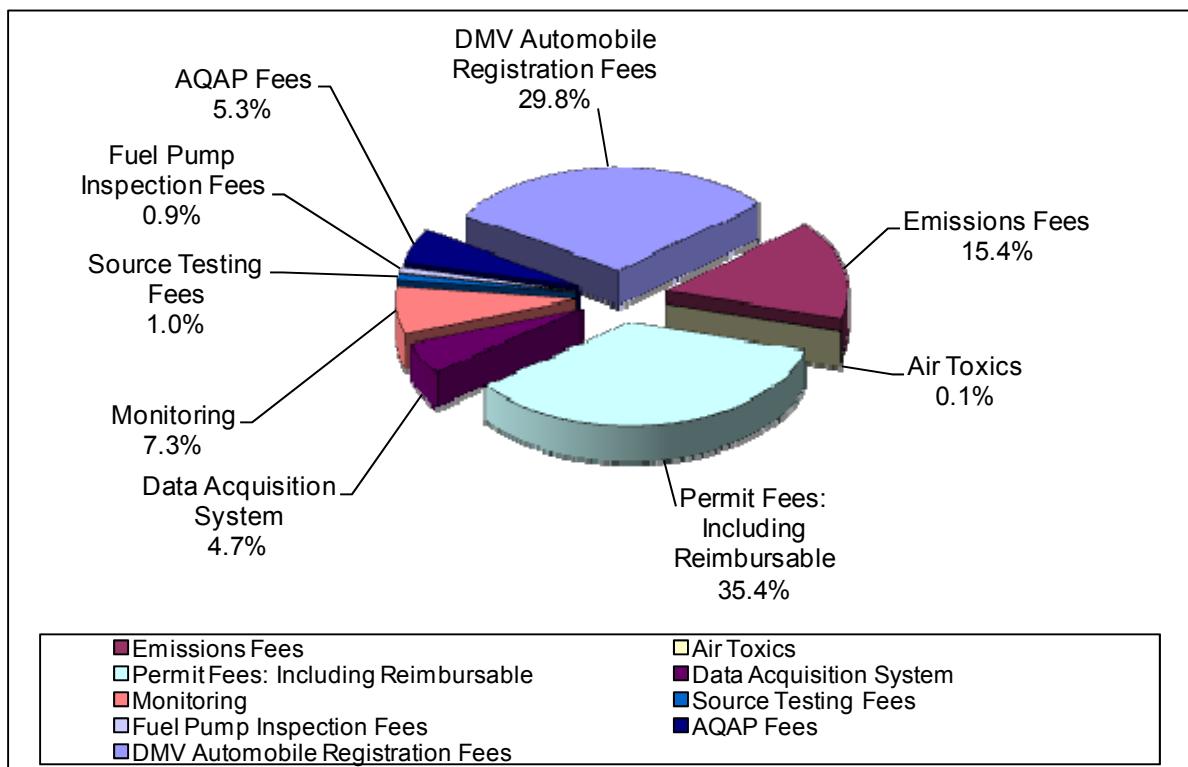


Year	Licenses, Permits and Franchises	Use of Money and Property	Grants and Subventions	Charges for Services	Miscellaneous Revenue	Total Revenues
1999	\$ 1,776,999	17,025	1,954,936	2,802,658	279,273	\$ 6,830,891
2000	\$ 2,640,100	68,011	1,952,666	2,357,285	179,873	\$ 7,197,935
2001	\$ 2,604,068	156,476	2,003,861	2,158,629	120,121	\$ 7,043,155
2002	\$ 2,406,317	195,497	2,491,108	1,994,938	163,010	\$ 7,250,870
2003	\$ 2,633,220	173,262	2,219,085	2,134,344	102,332	\$ 7,262,243
2004	\$ 2,712,627	117,836	2,320,330	1,755,033	88,367	\$ 6,994,193
2005	\$ 2,713,349	120,519	2,153,526	1,463,014	71,375	\$ 6,521,783
2006	\$ 3,591,224	154,294	2,730,758	2,380,341	69,961	\$ 8,926,578
2007	\$ 3,388,275	329,306	2,800,513	2,305,517	63,868	\$ 8,887,479
2008	\$ 3,328,064	279,247	2,838,854	1,935,857	42,677	\$ 8,424,699

Source:

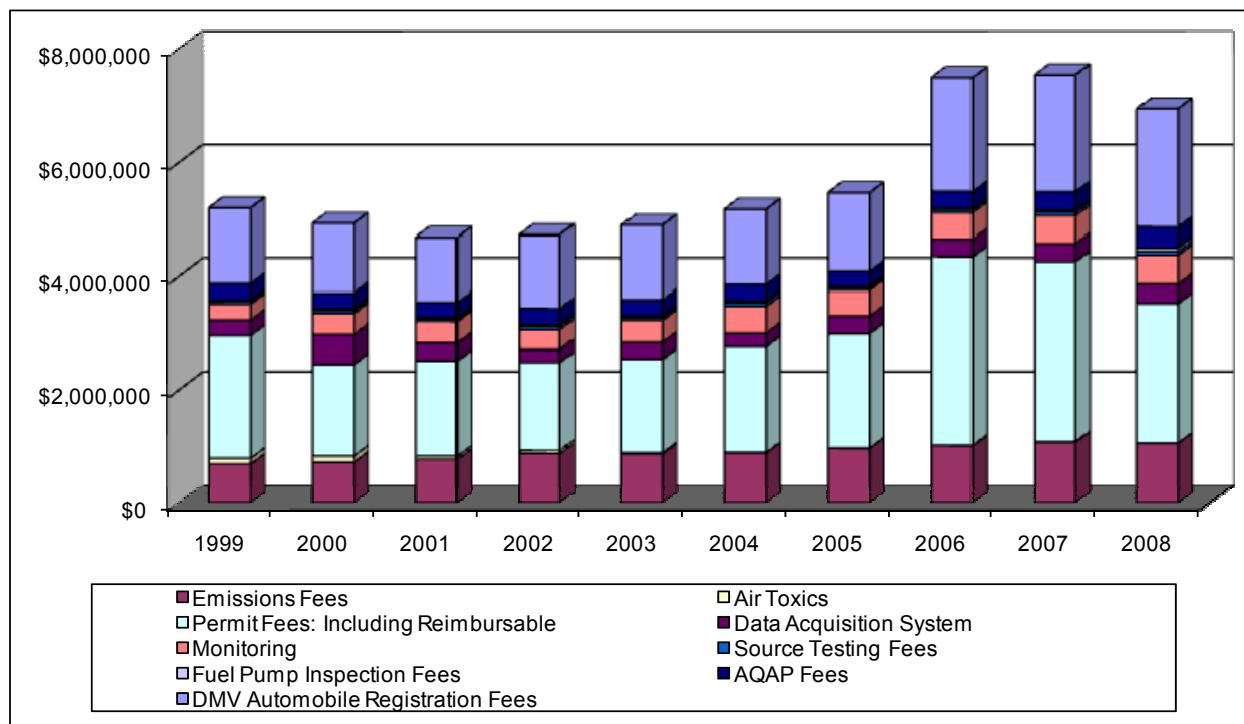
Santa Barbara County Air Pollution Control District Audited Financial Statements

General Fund Fee Revenues by Fee Source – Fiscal Year 2007-08



Source:
Santa Barbara County Air Pollution District Fee Revenues

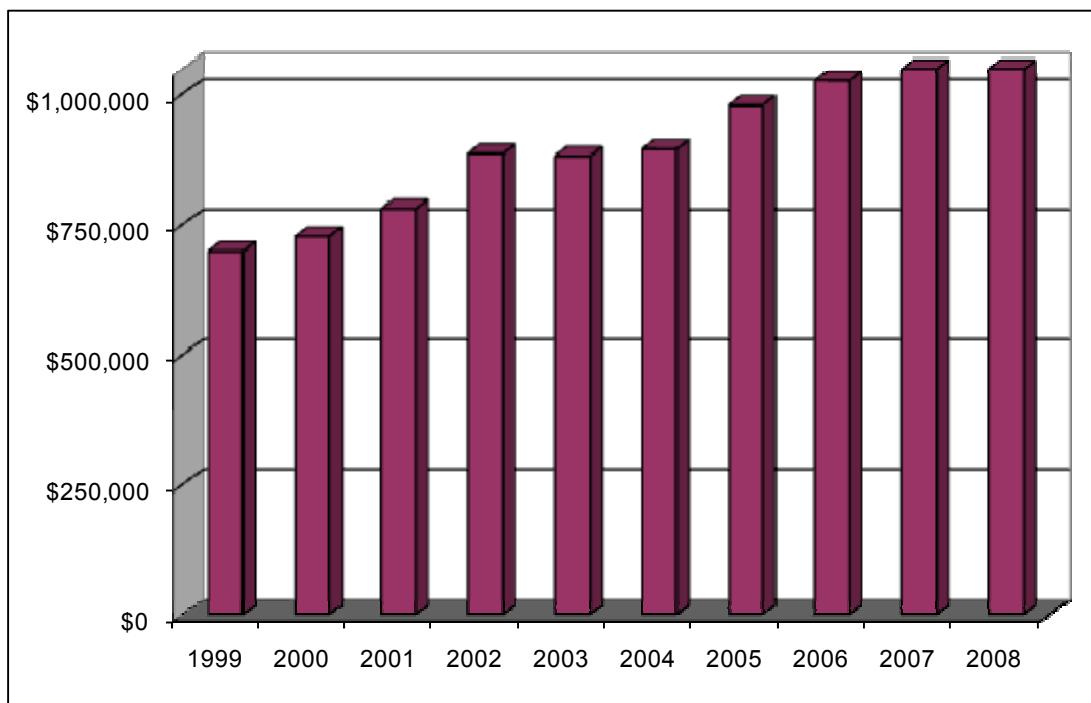
General Fund Fee Revenues by Fee Source – Last Ten Fiscal Years



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
1999	\$ 697,624	99,358	2,161,660	277,306	284,092	46,350	21,651	289,425	1,337,440	\$ 5,214,906
2000	\$ 725,301	112,347	1,620,085	520,684	371,953	49,658	37,176	272,524	1,228,183	\$ 4,937,911
2001	\$ 779,320	58,453	1,683,853	310,233	381,158	42,629	29,072	260,801	1,145,024	\$ 4,690,543
2002	\$ 884,482	55,857	1,551,883	225,380	349,660	58,683	30,776	283,422	1,294,148	\$ 4,734,291
2003	\$ 880,060	15,267	1,655,930	290,887	389,934	48,043	27,732	286,096	1,313,739	\$ 4,907,688
2004	\$ 892,979	10,652	1,859,879	239,875	478,190	67,174	27,384	285,577	1,327,591	\$ 5,189,301
2005	\$ 977,489	5,100	2,011,987	309,529	454,368	41,546	21,732	267,687	1,397,340	\$ 5,486,778
2006	\$ 1,025,676	9,086	3,315,396	310,314	472,089	55,300	16,641	305,550	1,995,966	\$ 7,506,018
2007	\$ 1,085,778	11,577	3,158,404	324,026	492,751	63,780	27,468	338,280	2,051,539	\$ 7,553,603
2008	\$ 1,068,178	3,908	2,457,229	336,726	508,847	66,903	62,410	369,709	2,067,453	\$ 6,941,363

Source:
Santa Barbara County Air Pollution District Fee Revenues

Emission Fee Revenues – Last Ten Fiscal Years



Year	Emission Fees
1999	697,624
2000	725,301
2001	779,320
2002	884,482
2003	880,060
2004	892,979
2005	977,489
2006	1,025,676
2007	1,085,778
2008	1,068,178

Source:

Santa Barbara County Air Pollution District Fee Revenues

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

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 thousand 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 – the population, urban development, and economy are all booming.

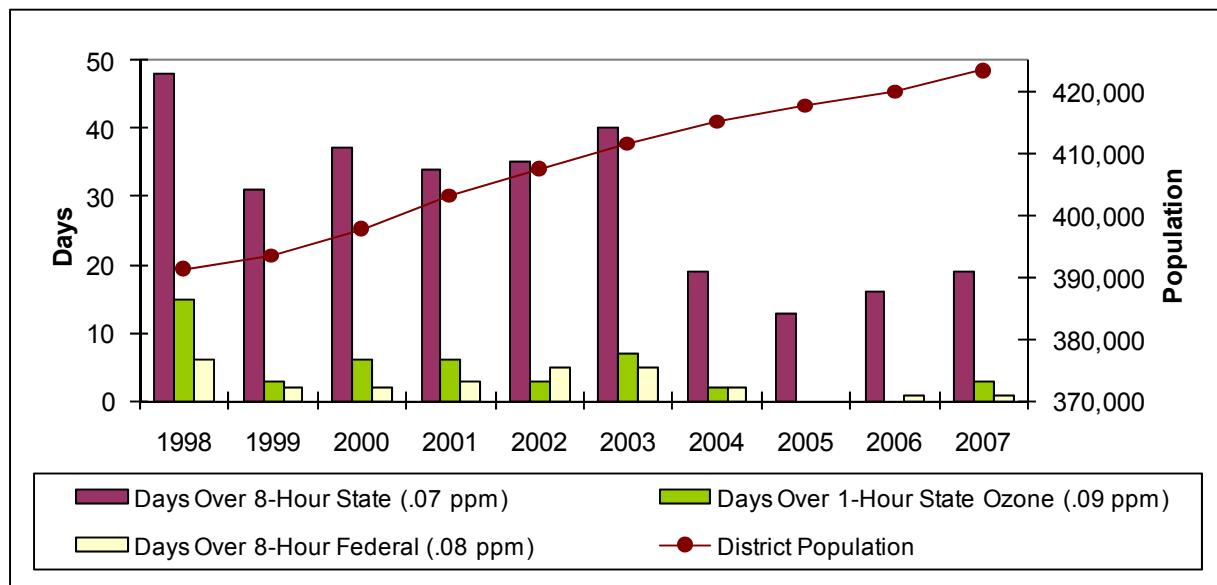
Lompoc Valley

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, picturesque coastline, scenic mountains, and numerous parks and beaches. 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 pollution, demographic, employment and motor vehicle information about the Santa Barbara County Air Pollution Control District region.

Santa Barbara County Smog Trend – Last Ten Calendar Years



Year	Days Over 8-Hour State (.07 ppm)	Days Over 1-Hour State Ozone (.09 ppm)	Days Over 8-Hour Federal (.08 ppm)	District Population
1998	48	15	6	391,283
1999	31	3	2	393,498
2000	37	6	2	397,877
2001	34	6	3	403,237
2002	35	3	5	407,494
2003	40	7	5	411,643
2004	19	2	2	415,253
2005	13	0	0	417,789
2006	16	0	1	420,038
2007	19	3	1	423,540

Note:

Population figures are at January 1 of the years listed.

Sources:

2001-2007 Data:

State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2008, with 2000 Benchmark. Sacramento, California, May 2008.

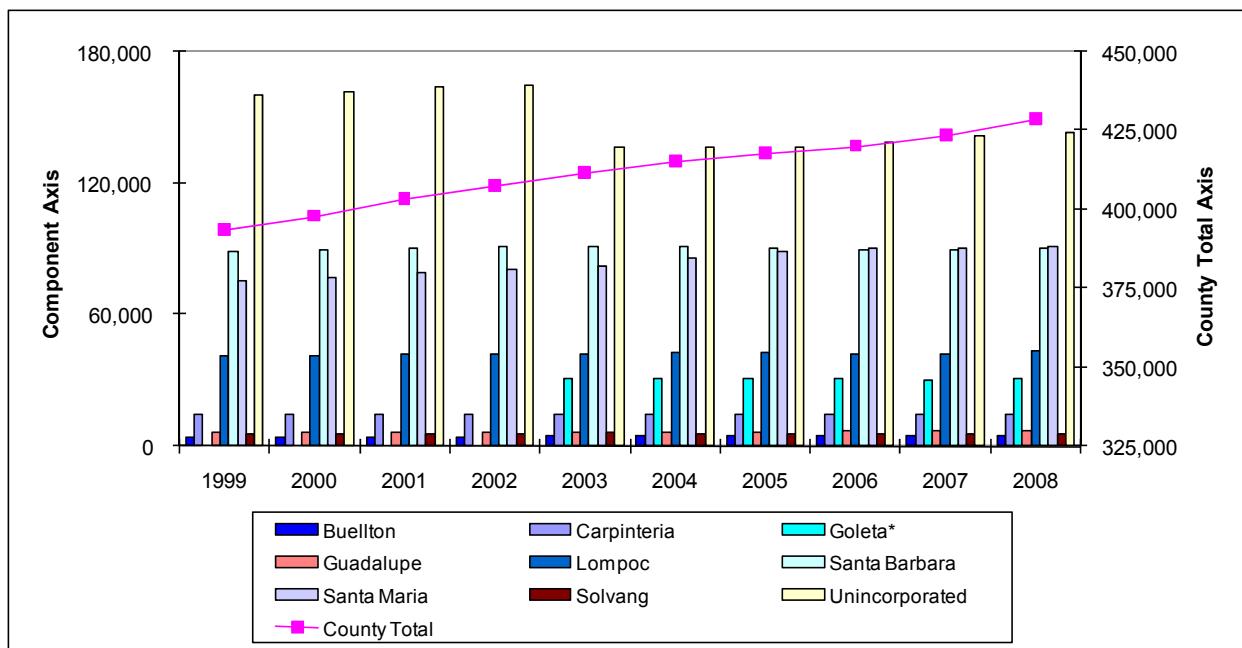
1998-2000 Data:

State of California, Department of Finance, "E-4 Historical Population Estimates for City, County and the State, 1991-2000, with 1990 and 2000 Census Counts." Sacramento, California, August 2007.

Smog Data:

Santa Barbara County Air Pollution Control District Monitoring Data.

Santa Barbara County Population by City – Last Ten Calendar Years



City	Santa Barbara County (January 1)									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Buellton	3,753	3,818	3,918	3,983	4,211	4,454	4,527	4,527	4,653	4,700
Carpinteria	13,980	14,147	14,361	14,428	14,383	14,353	14,259	14,107	14,092	14,271
Goleta*	0	0	0	0	30,764	30,695	30,482	30,130	30,096	30,400
Guadalupe	5,604	5,584	5,889	6,090	6,271	6,307	6,261	6,394	6,383	6,541
Lompoc	40,693	41,145	41,509	41,656	41,839	42,224	42,099	41,737	41,930	42,957
Santa Barbara	88,593	89,375	90,129	90,668	90,412	90,418	90,017	89,148	89,266	90,305
Santa Maria	75,379	76,913	78,602	80,481	82,097	85,275	88,305	89,800	90,144	91,110
Solvang	5,224	5,312	5,390	5,442	5,580	5,576	5,543	5,486	5,482	5,555
Unincorporated	160,272	161,583	163,439	164,746	136,086	135,951	136,296	138,709	141,494	142,816
County Total	393,498	397,877	403,237	407,494	411,643	415,253	417,789	420,038	423,540	428,655

* Goleta incorporated in 2003.

Note:

Population figures are at January 1 of the years listed.

Sources:

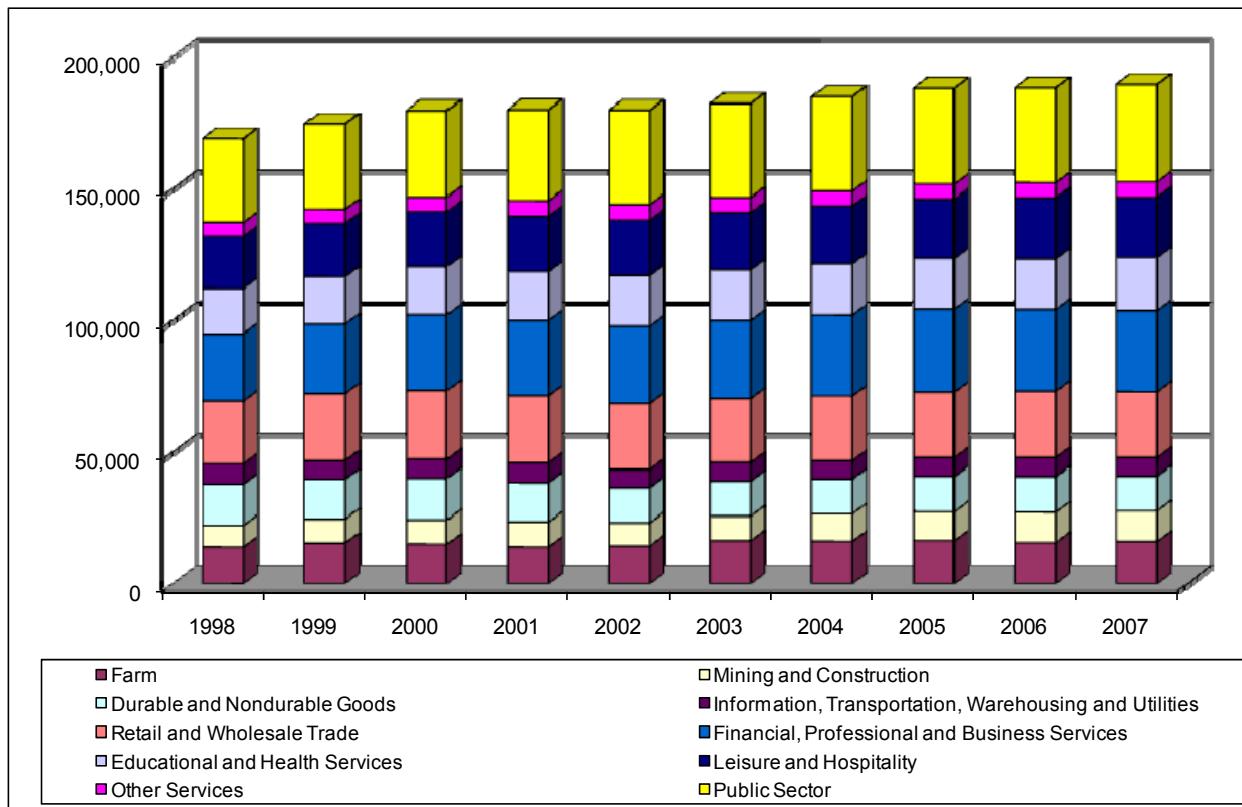
2001-2008 Data:

State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2008, with 2000 Benchmark. Sacramento, California, May 2008.

1999-2000 Data:

State of California, Department of Finance, "E-4 Historical Population Estimates for City, County and the State, 1991-2000, with 1990 and 2000 Census Counts." Sacramento, California, August 2007.

Santa Barbara County Civilian Employment – Last Ten Calendar Years

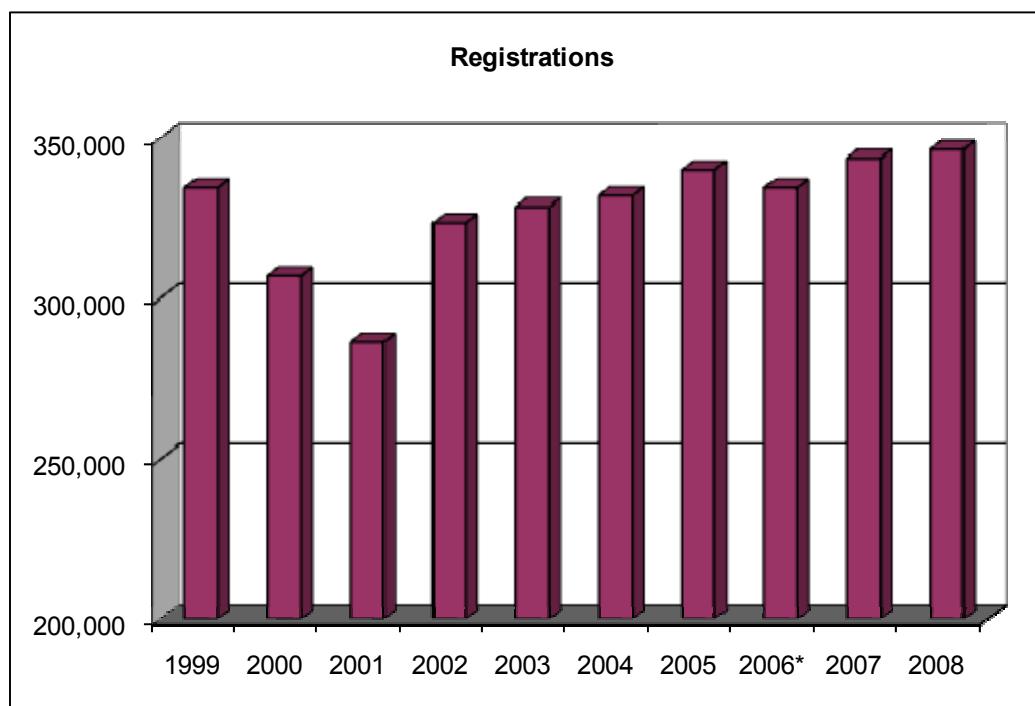


Year	Farm	Mining and Construction	Durable and Nondurable Goods	Information, Transportation, Warehousing and Utilities	Retail and Wholesale Trade	Financial, Professional and Business Services	Educational and Health Services	Leisure and Hospitality	Other Services	Public Sector	Total Wage and Salary
1998	13,800	8,300	15,700	7,700	23,900	25,500	17,200	19,600	5,400	31,800	168,900
1999	15,300	9,200	15,200	7,000	25,600	26,200	18,000	20,200	5,500	32,400	174,600
2000	14,900	9,300	15,900	7,200	26,200	28,600	18,400	20,800	5,600	32,800	179,700
2001	13,800	9,600	15,000	7,500	25,600	28,400	18,600	21,000	6,000	34,500	180,000
2002	14,200	8,900	13,400	6,900	25,100	29,200	19,300	21,000	6,000	35,800	179,800
2003	16,200	9,400	13,400	7,000	24,400	29,500	19,300	21,700	5,800	35,600	182,300
2004	16,000	10,500	13,300	6,900	24,700	30,600	19,600	21,900	5,600	35,900	185,000
2005	16,300	11,000	13,500	7,100	25,000	31,400	19,400	22,400	5,700	36,400	188,200
2006	15,500	11,600	13,600	7,200	25,300	30,900	19,400	23,000	5,800	36,000	188,300
2007	15,900	11,700	13,300	7,000	25,100	30,700	20,300	22,700	5,900	37,000	189,600

Source:

California Employment Development Department (EDD)

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



Fiscal Year	Vehicle Registrations	Registration Fees
1999	334,360	1,337,440
2000	307,046	1,228,183
2001	286,256	1,145,024
2002	323,537	1,294,148
2003	328,435	1,313,739
2004	331,898	1,327,591
2005	339,983	1,397,340
2006*	334,324	1,995,966
2007	343,633	2,051,539
2008	346,298	2,067,453

* Adopted additional \$2 DMV registration fee.

Source:
Santa Barbara County Air Pollution District 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>	428,655 (In January 1, 2008)
<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>	346,298 (in Fiscal Year 2007-08)
<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 Sources:</i>	983 Small, Medium, and Large
<i>Number of Air Monitoring Stations:</i>	17
<i>Full-time Positions for 2007-08:</i>	55.25 are authorized and 51.25 are funded.
<i>Full-time Positions for 2008-09:</i>	55.25 are authorized and 51.25 are funded.
<i>Adopted 2008-09 Budget:</i>	\$9,460,583
<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.