



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

Our Vision  Clean Air

COMPREHENSIVE ANNUAL FINANCIAL REPORT



**FISCAL YEAR ENDED
JUNE 30, 2006**

**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.

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



Comprehensive Annual Financial Report
Year Ended June 30, 2006

Prepared by:
Fiscal Section
Donald C. Kendig, CPA, Business Manager





**Santa Barbara County
Air Pollution Control District**

Comprehensive Annual Financial Report
Year Ended June 30, 2006

TABLE OF CONTENTS

INTRODUCTORY SECTION	1
<i>Letter of Transmittal</i>	1
FINANCIAL SECTION	9
<i>Independent Auditors' Report</i>	10
<i>Management's Discussion and Analysis (Unaudited)</i>	12
<i>Financial Statements:</i>	20
Fund and Government-wide Financial Statements:	20
<i>Balance Sheet and Statement of Net Assets</i>	20
<i>Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets</i>	21
<i>Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Activities</i>	22
<i>Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities</i>	23
Notes to the Basic Financial Statements:	24
<i>Required Supplementary Information:</i>	35
General Fund – Budgetary Comparison Schedule	35
Notes to Schedule of General Fund Budgeted and Actual Expenditures – Budgetary Basis	36
STATISTICAL SECTION (UNAUDITED)	37
General Fund Expenditures by Major Object (Combined Budgetary and GAAP Basis) – Last Ten Fiscal Years	38
General Fund Revenues by Major Object (Combined Budgetary and GAAP Basis) – Last Ten Fiscal Years	39
General Fund Fee Revenues by Fee Source – Fiscal Year 2005-06	40
General Fund Fee Revenues by Fee Source – Last Ten Fiscal Years	41
Emission Fee Revenues – Last Ten Fiscal Years	42
Key Air Quality and Demographic Information Regarding the Region Included in the Santa Barbara County Air Pollution Control District	43
Santa Barbara County Smog Trend – Last Ten Calendar Years	44
Santa Barbara County Population by City – Last Seven Calendar Years	45
Santa Barbara County Civilian Employment – Last Seven Calendar Years	46
Fee-Paid Vehicle Registrations and Fees Collected (Automobiles and Light Trucks) for Santa Barbara County – Last Ten Fiscal Years	47
Demographic and Miscellaneous Statistics	48



October 10, 2006

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

This is the third Comprehensive Annual Financial Report (CAFR) of the Santa Barbara County Air Pollution Control District (APCD) using the new reporting requirements as prescribed by the Governmental Accounting Standards Board (GASB) Statement 34. This report is for the fiscal year that ended June 30, 2006 and was prepared by the APCD Fiscal Section. APCD management is responsible 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.

This report is divided into three sections: the Introductory Section, Financial Section and Statistical Section. The Introductory Section includes the APCD's organizational structure and list of principal officials as well as this Letter of Transmittal which provides general comments on activities of interest. The Financial Section is comprised of the Audit Opinion, Management's Discussion and Analysis, the Basic Financial Statements, which include the Notes to the Basic Financial Statements, and the Budgetary Comparison Schedule for the General Fund. The Statistical Section provides important historical and trend information about the APCD.

The APCD's basic financial statements have been audited by Nasif, Hicks, Harris & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the APCD for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the APCD's basic financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditor's report is presented as the first component of the financial section.

A federally mandated "Single Audit" was not required for the fiscal year ended June 30, 2006 because expenditures of federal funds received were below the \$500,000 threshold. Therefore, there will not be a separately issued Single Audit report this fiscal year.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Management's MD&A can be found immediately following the report of independent auditors.

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

The governing board of the APCD 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 following lists members of the governing board as of June 30, 2006.

Supervisor Salud Carbajal

First District, Santa Barbara County

Councilmember Russ Hicks

City of Buellton

Supervisor Susan Rose

Second District, Santa Barbara County

Councilmember Donna Jordan

City of Carpinteria

Supervisor Brooks Firestone

Third District, Santa Barbara County

Councilmember Margaret Connell, Chair

City of Goleta

Supervisor Joni Gray

Fourth District, Santa Barbara County

Mayor Lupe Alvarez

City of Guadalupe

Supervisor Joe Centeno

Fifth District, Santa Barbara County

Councilmember Will Schuyler, Vice-Chair

City of Lompoc

Mayor Marty Blum

City of Santa Barbara

Councilmember Marty Mariscal

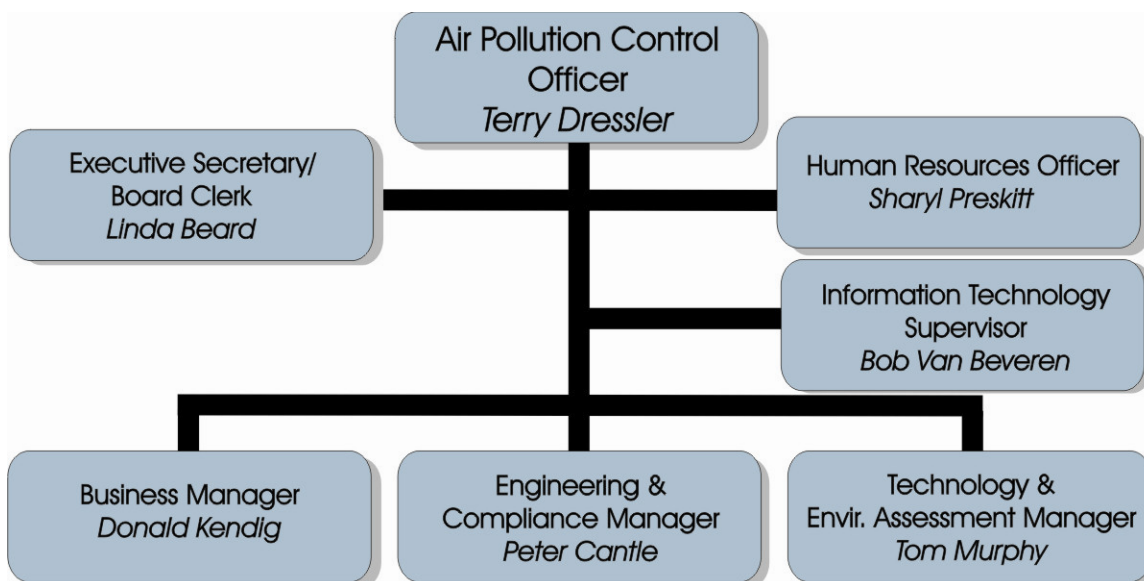
City of Santa Maria

Councilmember Edwin Skytt

City of Solvang

Organization Chart

APCD staff members 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, 2006.



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

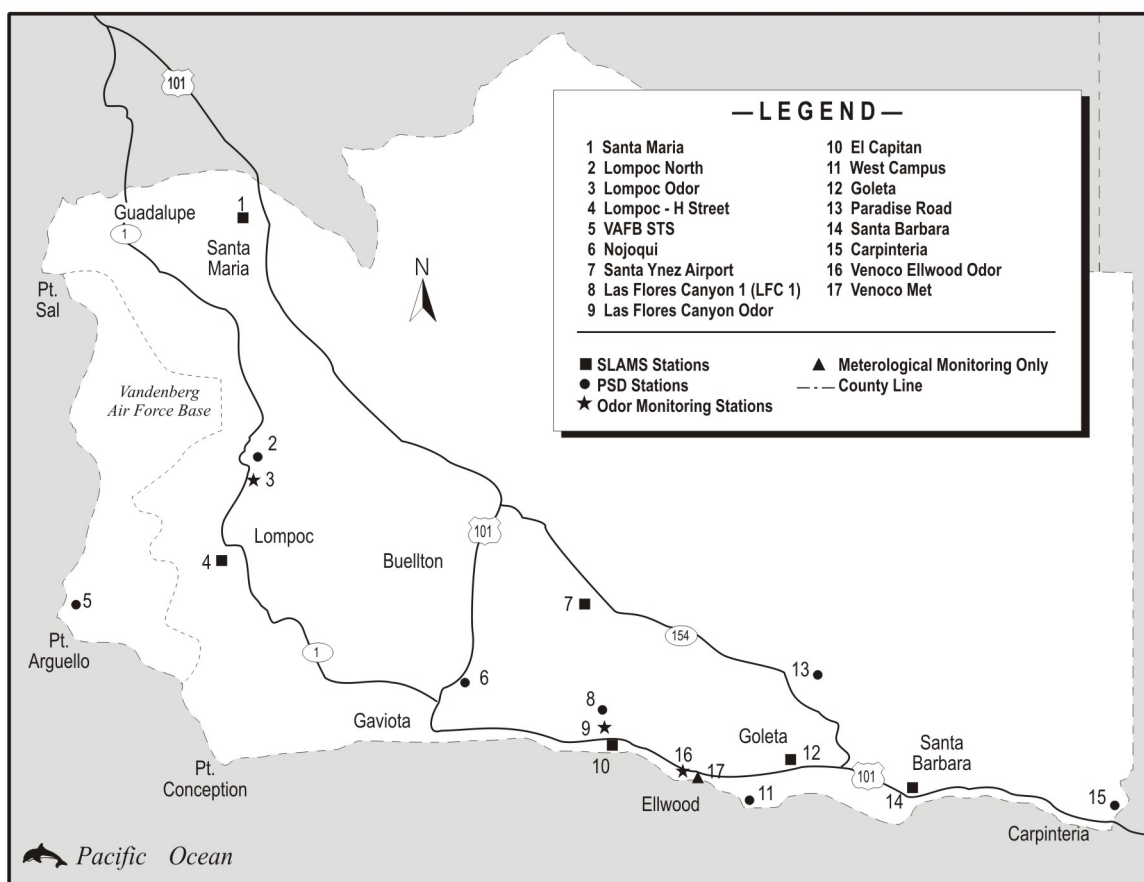
environmental documents for compliance with the California Environmental Quality Act; and educates and assists businesses and the public about our air and how we can keep it clean.

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 has historically violated both the state and federal ozone standards. Ozone concentrations above these standards adversely affect public health, diminish the production and quality of many agricultural crops, reduce visibility, and damage native and ornamental vegetation. In 1970, when the APCD was formed, the air in Santa Barbara did not meet the federal 1-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 1-hour ozone standard. Santa Barbara County is also designated as a federal ozone attainment area for the 8-hour ozone National Ambient Air Quality Standard. A new California 8-hour ozone standard was implemented in May, 2006. The County violates this new state 8-hour ozone standard and continues to violate the state 1-hour standard for ozone and the state standard for PM₁₀.

Santa Barbara County Air Quality Monitoring Stations



Factors Affecting the Financial Condition

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, adopted by the APCD Board in October 1997, forecasted that overall fee revenue would decrease substantially for several years, and, in fact, fee revenue has dropped substantially.

As noted above, the fee reductions over the last eleven 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 fiscal year 2005-06 was 3.9%. 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 12.94% as of fiscal year 2005-06. 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, but not 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 statement.

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.

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, 2006 is \$6,206,742 (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, Driver Alliant Insurance Services. 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 XI of the basic financial statements.

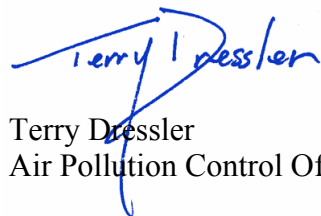
Loss control activities are managed by APCD's staff assigned to risk management activities. Staff performs loss prevention inspections and employee safety training to minimize potential human and property losses, and establish compliance with Cal/OSHA regulations.

Acknowledgments

The preparation of this comprehensive annual financial report is the result of a concentrated, dedicated, and 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. These members have our sincere appreciation for the contribution made in the preparation of this report.

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 APCD's mission of protecting public health from air pollution with sensitivity to the impacts of its actions on the community and businesses.

Respectfully Submitted,



Terry Dressler
Air Pollution Control Officer



Donald Kendig, CPA
Business Manager





**Santa Barbara County
Air Pollution Control District**

Comprehensive Annual Financial Report
Year Ended June 30, 2006

FINANCIAL SECTION

Independent Auditors' Report

Management's Discussion and Analysis

Financial Statements

Required Supplementary Information

NASIF, HICKS, HARRIS & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM J. NASIF
STEVEN J. HICKS
JEFFERY P. HARRIS
BARBARA ROGERS SCOLLIN
JODY DOLAN HOLEHOUSE
THOMAS W. BURK
MARIANNE F. BLOOM
ROBERT SWAYNE LYONS

1111 GARDEN STREET, SUITE 200
SANTA BARBARA, CALIFORNIA 93101
TELEPHONE (805) 966-1521
FAX (805) 963-1780
www.nhhco.com

October 10, 2006

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, 2006, 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, 2006, 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 October 10, 2006, 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Santa Barbara County Air Pollution Control District 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, 2006. 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

- The assets of the APCD exceeded its liabilities at the close of the most recent fiscal year by \$6,322,089 (*net assets*). Of this amount, \$5,808,368 (*unrestricted net assets*) may be used to finance the APCD's day-to-day operations without constraints established by legal requirements. Net assets include capital assets net of any related debt.
- As of the close of the fiscal year, the APCD's governmental funds reported combined fund balances of \$6,212,497. This amount represents entirely the amount of the General Fund.
- Out of the total General Fund balance of \$6,212,497 at the end of the fiscal year, \$550 and \$12,626 is reserved for imprest cash and employee loans, respectively, with the remainder of \$6,199,321 designated for future uses. A schedule of the reserved and designated fund balances can be found in Note II of the notes of the basic financial statements.

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.

In general, the purpose of financial reporting is to provide the external parties with information that will help them make decisions or draw conclusions about an entity. In order to address the needs of as many parties as reasonably possible, the APCD, in accordance with required reporting standards, presents government-wide financial statements and fund financial statements.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the APCD. These financial statements are constructed around the concept of a primary government and its component units, excluding fiduciary funds. The financial statements of the APCD's fiduciary funds (holdings) are not included in the government-wide financial statements because the resources of these funds cannot be used to finance the APCD's activities. Further, the APCD is a single purpose entity and does not have any component units.

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. This difference is

comparable to the total stockholders' equity presented by a commercial enterprise. 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 net cost of the APCD's activities by category and is prepared on the full accrual basis. Revenues and expenses are recognized as earned and incurred even though they may not have been received or paid in cash.

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 20 and 22, 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. Since different accounting bases are used to prepare the above statements, reconciliations are required to facilitate the comparison between the fund statements and the government-wide statements. The reconciliation between the total fund balances can be found on page 21 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 23.

Notes to the Basic Financial Statements

The notes to the basic financial statements, starting on page 24, 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, 2006 along with June 30, 2005.

Net Assets		
	Governmental Activities	
	June 30, 2006	June 30, 2005
Current and other assets	\$ 6,984,774	\$ 6,055,097
Capital assets	513,721	563,218
Total assets	7,498,495	6,618,315
Other liabilities	772,277	843,266
Long-term liabilities outstanding	404,129	477,183
Total liabilities	1,176,406	1,320,449
Net assets:		
Invested in capital assets, net of related debt	513,721	434,729
Unrestricted	5,808,368	4,863,137
Total net assets	\$ 6,322,089	\$ 5,297,866

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 short-term liabilities of \$772,277 by \$6,726,218, and total liabilities of \$1,176,046 by \$6,322,089. Net assets increased by \$1,024,223 due to revenues in excess of what was needed to fund operations.

The largest portion of the APCD's net assets (approximately 92 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 eight 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, 2006 along with June 30, 2005.

Changes in Net Assets

	Governmental Activities June 30, 2006	Governmental Activities June 30, 2005
Revenues:		
Licenses, permits, and franchises	\$ 3,591,224	\$ 2,713,349
Use of money and property	154,294	120,519
Grants and subventions	2,730,758	2,153,526
Charges for services	2,380,341	1,463,014
Other	69,961	71,375
Total Revenues	<u>8,926,578</u>	<u>6,521,783</u>
Expenses:		
Air pollution control services:		
Salaries and benefits	4,999,495	4,776,393
Services and supplies	2,425,606	1,699,441
Debt Service		
Interest	1,853	5,685
Other Expenses	301,565	262,062
Depreciation	173,836	178,626
Total Expenses	<u>7,902,355</u>	<u>6,922,207</u>
Excess (deficiency) of revenues over expenses	1,024,223	(400,424)
Net Assets:		
Beginning of year	<u>5,297,866</u>	<u>5,698,290</u>
End of year	<u>\$ 6,322,089</u>	<u>\$ 5,297,866</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.

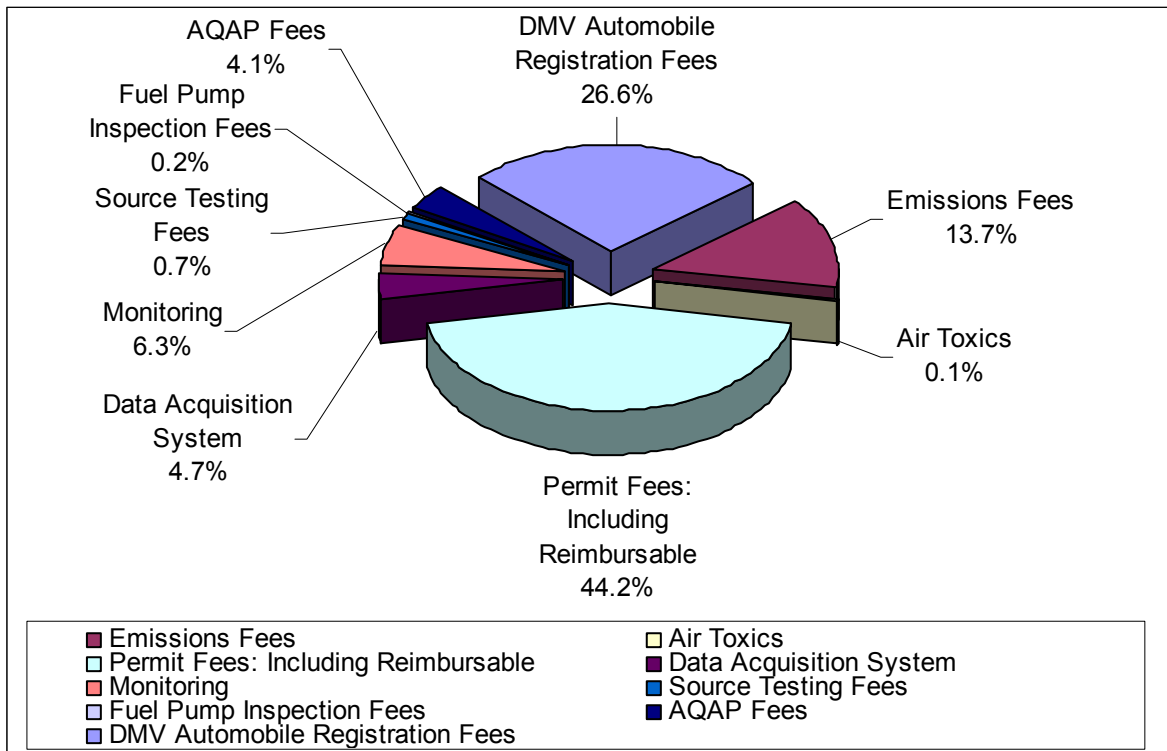
The statement of activities presents information showing how the APCD's net assets changed during fiscal year 2005-06. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

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 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 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 \$8,926,578 for the year ending June 30, 2006 and \$6,521,783 for the year ending June 30, 2005.

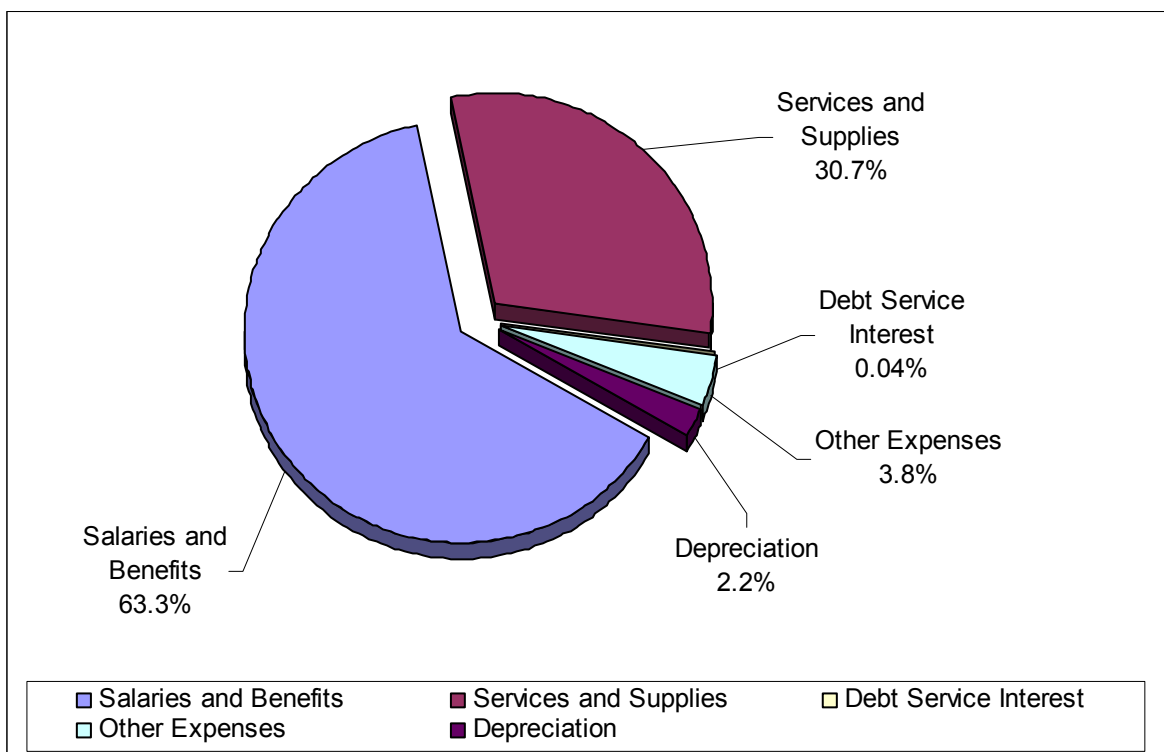
For the year ending June 30, 2006, approximately 84% or \$7,506,018 of those revenues are fee based. The chart and table following provide a breakdown of those fees. The DMV Automobile Registration Fees of \$1,995,966 are included in grants and subventions in the Statement of

Activities. Also, all of the other fees listed below are included in licenses, permits, and franchises, or charges for services, in the Statement of Activities.



Fee Source	FY 05-06
Emissions Fees	\$ 1,025,676
Air Toxics	9,086
Permit Fees: Including Reimbursable	3,315,396
Data Acquisition System	310,314
Monitoring	472,089
Source Testing Fees	55,300
Fuel Pump Inspection Fees	16,641
AQAP Fees	305,550
DMV Automobile Registration Fees	1,995,966
Total Fee Revenues	\$ 7,506,018

All of the expenses of the APCD were for air pollution control services and total \$7,902,355. The chart and table below provide APCD expenses by object level.



Expenses by Object Level	FY 05-06
Salaries and Benefits	\$ 4,999,495
Services and Supplies	2,425,606
Debt Service Interest	1,853
Other Expenses	301,565
Depreciation	173,836
Total Expenses	\$ 7,902,355

Financial Analysis of APCD's Funds

Governmental Funds

As of the end of the fiscal year, the APCD's governmental fund reported an ending fund balance of \$6,212,497, an increase of \$1,000,666 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. \$13,176 of the General Fund balance is reserved with the remaining \$6,199,321 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 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 78.2 and 78.4 percent, respectively, of total General Fund operating expenditures of \$7,925,912. Prior year measures were 72.1 and 72.3 percent, respectively. 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 2005-06, fee rates increased 3.9 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 12.94% as of fiscal year 2005-06. 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-valuations 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 permits are issued and entered into the three-year re-evaluation cycle. Fiscal year 2005-06 was a surplus year for permit re-evaluations. Surpluses are set aside in designations, based on a budgeted three year rolling average, to fund deficit years.

General Fund Budgetary Highlights

The fiscal year 2005-06 amended budget compared to the adopted budget reflects no change in the total budgeted appropriations and a \$1,686,658 increase in budgeted operating revenues.

The changes to the revenue budgeted were the result of several factors. Portions of services and supplies were reallocated to debt service. Debt Service was originally budgeted under services and supplies, while GAAP requires that it be broken out. The District paid off the debt in November 2005 and debt service will not appear in future years.

A use of prior year fund balance of originally \$1,422,562 was budgeted for fiscal year 2005-06 and amended to a savings of \$264,096, and at the end of the fiscal year, was actually a savings of \$1,000,666. This resulted in a positive variance of \$2,159,132 between originally adopted budget and actual amount, and a positive variance of \$736,570 between the final adopted budget and actual amount. The following factors contributed to this variance.

Revenues

Licenses, Permits, and Franchises – the budget was increased to reflect additional evaluation and annual emission fees (\$132,779 and \$142,301 respectively) as well as unanticipated Notices of Violation penalties \$352,537 above budget. Reevaluation fees were also above originally budgeted amounts by a modest \$82,108.

Use of Money and Property – was \$14,294 greater than budgeted, due to higher than anticipated fund balances during the year.

Grants and Subventions – the increase in the budget was to realize additional DMV \$4 and \$2 funds (\$40,734 and \$26,576 respectively).

Charges for Services – the budget was increased by just under one million dollars to primarily realize Moyer grant program funding that came in a fiscal year early resulting in an excess above budget of \$836,184. In addition, AQAP funds were \$45,800 greater than originally budgeted.

Expenditures

Salaries and Benefits – were only \$37,272 lower than budgeted primarily due to the filling of a vacancy after the start of the fiscal year.

Services and Supplies – were \$425,065 lower than budgeted primarily due to the ITG group not completing the additional activities budgeted for under their two-year contract cycles and not granting out all funds as budgeted. The contracts and grants are funded by Moyer funds under

Charges for Services, DMV funds under Grants and Subventions, and releases of DMV designations.

Capital Outlay – was \$25,161 lower than budgeted due to deferring an information technology project budgeted at \$15,000 as well as a savings in the cost of data loggers for the data acquisition system, for the remainder.

Capital Assets and Debt Administration

Capital Assets

The book value of APCD's investment in capital assets was \$513,721 (net of accumulated depreciation of \$1,167,155) as of June 30, 2006. 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 disposal of two portable organic vapor analyzers. Whenever possible, the District donates old equipment to other districts.

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

Debt

At the end of the current fiscal year, the APCD had debt outstanding of \$404,129, all of which is considered current and due within one year. The entire amount represents employee compensated absences and the payoff of the note payable with the County is reflected in the schedule as a deletion of \$128,489 (See Note IX).

Economic Factors and Next Year's Budget and Rates

The fiscal year 2006-07 operating expenditure budget increases by \$1,064,087 from the fiscal year 2005-06 adjusted budget. A significant portion of this increase reflects an increase in service and supplies for clean air grant contracts, in response to increased Moyer and DMV \$2 funding. Of the increase, Capital Outlay increases by \$41,500 for the replacement of a monitoring station shelter on Vandenberg Air Force Base and Salaries and Benefits increases of \$62,233 (or 1.2%) for step increases, COLAs, and other benefit cost increases.

The fiscal year 2006-07 expenditures budget is approximately \$9.5 million and includes funding for 54.25 of 55.25 authorized positions. A use of fund balance, in the form of a release of designations has been budgeted at just under \$1.5 million. Of this \$560,570 is budgeted to fund ongoing operations. The use of savings to fund ongoing operations is not sustainable and APCD management continues its work to close the gap by minimizing expenditure increases and allowing revenues to catch up. Substantial progress is anticipated in the 2007-08 fiscal year.

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 at 4.2% for fiscal year 2006-07.

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 or requests for additional financial information 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.sbapcd.org/apcd/cafr.htm.

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

As of June 30, 2006

	General Fund	Adjustments(1)	Statement of Net Assets
Assets			
Cash (note III)	\$ 5,808,481	\$ --	\$ 5,808,481
Restricted cash and investments (note IV)	398,261	--	398,261
Receivables:			
Accounts, net	709,488	--	709,488
Interest	55,918	--	55,918
Employee	12,626	--	12,626
Capital assets, net of accumulated depreciation (note V)	--	513,721	513,721
Total assets and other debits	\$ 6,984,774	\$ 513,721	\$ 7,498,495
Liabilities			
Deferred/Unearned revenue (note VII)	\$ 176,853	\$ --	\$ 176,853
Accrued expenses	22,723	--	22,723
Salaries and benefits payable	174,440	--	174,440
Permit holders payable (note IV)	398,261	--	398,261
Employee compensated absences	--	404,129	404,129
Total liabilities	772,277	404,129	1,176,406
Fund balances/Net assets:			
Fund balances (note II):			
Reserved:			
Imprest cash	550	(550)	--
Employee loans	12,626	(12,626)	--
Designated	6,199,321	(6,199,321)	--
Total fund balances	6,212,497	(6,212,497)	--
Total liabilities and fund balances	\$ 6,984,774		
Net assets:			
Invested in capital assets, net of related debt		513,721	513,721
Unrestricted		5,808,368	5,808,368
Total net assets		\$ 6,322,089	\$ 6,322,089

- 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, 2006

Fund Balances - Total Governmental Funds (General Fund)	\$ 6,212,497
---	--------------

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	\$ 1,680,876	
Accumulated depreciation	(1,167,155)	
	<u>\$ 513,721</u>	513,721

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>(404,129)</u>
----------------------	------------------

Net Assets of Governmental Activities	<u>\$ 6,322,089</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, 2006

	General Fund	Adjustments (1)	Statement of Activities
Revenues:			
Licenses, permits, and franchises	\$ 3,591,224	\$ --	\$ 3,591,224
Use of money and property	154,294	--	154,294
Grants and subventions	2,730,758	--	2,730,758
Charges for services	2,380,341	--	2,380,341
Other	69,961	--	69,961
Total revenues	8,926,578	--	8,926,578
Expenditures/expenses:			
Air pollution control services:			
Salaries and benefits	4,944,060	55,435	4,999,495
Services and supplies	2,425,606	--	2,425,606
Debt Service			
Principle	128,489	(128,489)	--
Interest	1,853	--	1,853
Other Expenses	301,565	--	301,565
Depreciation	--	173,836	173,836
Capital outlay	124,339	(124,339)	--
Total expenditures/expenses	7,925,912	(23,557)	7,902,355
Excess (deficiency) of revenues over expenditures/expenses	1,000,666	23,557	1,024,223
Fund balances/net assets:			
Beginning of year	5,211,831	86,035	5,297,866
End of year	\$ 6,212,497	\$ 109,592	\$ 6,322,089

- 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, 2006

Net Change in Fund Balances - Total Governmental Funds (General Fund)	\$ 1,000,666
---	--------------

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	\$ (173,836)	
Capital outlay	124,339	
	<u>\$ (49,497)</u>	(49,497)

Repayment of note principal is an expenditure in the governmental funds. For APCD as a whole, principal payments reduce the note payable in the Government-wide Statement of Net Assets and do not result in an expense in the Statement of Activities and Changes in Net Assets.

128,489

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.

(55,435)

Changes in Net Assets of Governmental Activities	<u>\$ 1,024,223</u>
--	---------------------

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 the year 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, 2006. In addition the district has a payable for deposits by permit holders (See Note IV) and Deferred/Unearned revenue (see Note VII).

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, and proprietary fund types in the fund 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, 2006 are as follows:

		<u>General Fund</u>
Reserved for:		
Imprest Cash		\$ 550
Employee Loans		12,626
Designated for:		
ITG Projects	\$ 1,736,193	
Accumulated Capital Outlay	258,395	
Strategic Reserve	450,000	
Monitoring	166,126	
Dry Period Reserve	772,929	
Contingency	66,453	
Data Acquisition System	491,261	
Insurance Deductible	40,000	
Special Investigations	20,000	
DMV 2\$ and 4\$	711,257	
Operational Activities	1,486,707	
Subtotal designations	<u>\$ 6,199,321</u>	6,199,321
Total reserves and designations		<u>\$ 6,212,497</u>

III. CASH AND INVESTMENTS

Cash and investment balances for the primary government at June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 5,808,481
Restricted cash and investments (note IV)	<u>398,261</u>
Total cash and investments	<u><u>\$ 6,206,742</u></u>

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand	\$ 550
Cash and equivalents in County Investment Pool	<u>6,206,192</u>
Total cash and investments	<u><u>\$ 6,206,742</u></u>

A. Investments Authorized by the APCD's Investment Policy

The APCD investment policy only authorizes investment in the local government investment pool administered by the Santa Barbara County Treasurer.

B. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average days to maturity of the investments contained in the Santa Barbara County Treasurer investment pool was approximately 276 days.

Information about the sensitivity of the fair values of the APCD's investment to market interest rate fluctuation is provided by the following table that shows the maturity date of each investment type, which currently is only the County Investment Pool:

<u>Investment Type</u>	<u>Amount</u>	<u>Maturity Date</u>
County Investment Pool	\$ 6,206,192	276 days avg.

C. Credit Risk and Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating firm. The Santa Barbara County Treasurer mitigates these risks by holding a diversified portfolio of high quality investments. The Treasurer's investment policy sets specific parameters by type of investment for credit quality, maturity length, and maximum percentage of investment. For securities issued and fully guaranteed as to payment by an agency, or government sponsored enterprise of the US Government, the issuer shall be rated AAA by at least two of the three major rating services of Fitch, Moody's, and Standard & Poor's (S&P). Commercial Paper obligations shall be rated by at least two of the three major rating services a minimum of F1 by Fitch, P1 by Moody's, and A1 by S&P. Corporate Bonds shall be rated AA by at least two of the three major rating services of Fitch, Moody's, and S&P.

III. CASH AND INVESTMENTS – Continued

C. Credit Risk and Concentration of Credit Risk - Continued

In addition, the investment policy stipulates that no more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies, and sponsored enterprises.

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Santa Barbara County Treasurer investment policies do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. At June 30, 2006, the APCD had no deposits with financial institutions in excess of federal depository insurance limits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. All securities held in the Santa Barbara County Treasurer investment pool are deposited in trust for safekeeping with a custodial bank different from the County's primary bank. Securities are not held in broker accounts.

E. Investment in Santa Barbara County Treasurer Investment Pool

The APCD is a voluntary participant in the Santa Barbara County Treasurer's investment pool that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. Accordingly, APCD's investments are held in the name of the County and are not specifically identifiable. At June 30, 2006, cost approximated fair value of the APCD's share of pooled cash and investments and the fair value of the APCD's investment in this pool is reported in the accompanying financial statements at amounts based upon the APCD's pro-rata share of the fair value provided by the Santa Barbara County Treasurer for the entire investment pool. The balance available for withdrawal is based on the accounting records maintained by the Santa Barbara County Treasurer.

IV. RESTRICTED CASH AND INVESTMENTS AND PERMIT HOLDERS PAYABLE

Cash and investments at June 30, 2006 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	\$ 375,848
Air Resources Board (ARB) fees	<u>22,413</u>
Total restricted cash and investments	<u><u>\$ 398,261</u></u>

V. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities:				
Capital assets, being depreciated:				
Furniture	\$ 399,028	\$ -	\$ -	\$ 399,028
Equipment	1,168,771	124,339	(11,262)	1,281,848
Total capital assets, being depreciated	<u>1,567,799</u>	<u>124,339</u>	<u>(11,262)</u>	<u>1,680,876</u>
Less accumulated depreciation for:				
Furniture	(115,808)	(57,004)	-	(172,812)
Equipment	(888,773)	(116,832)	11,262	(994,343)
Total accumulated depreciation	<u>(1,004,581)</u>	<u>(173,836)</u>	<u>11,262</u>	<u>(1,167,155)</u>
Total capital assets, net	<u>\$ 563,218</u>	<u>\$ (49,497)</u>	<u>\$ -</u>	<u>\$ 513,721</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, 2006. A significant portion of the lease obligation is with the County of Santa Barbara (see note VIII).

Year Ending June 30,	
2007	269,000
2008	250,000
2009	250,000
2010-2014	1,252,000
2015-2019	1,252,000
2019-2024	1,190,000
2025-2029	1,183,000
2030-2033	907,000
Total Minimum Payments Required	<u>\$ 6,553,000</u>

Total rental expenditure/expense for the year ended June 30, 2006 was \$300,424.

VII. DEFERRED/UNEARNED REVENUE

Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received as of year-end, but not yet earned.

At June 30, 2006, the various components of deferred revenue and unearned revenue reported were for the APCD school bus retrofit program in the amount of \$176,853.

VIII. 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, 2006, \$27,837 was paid to the County of Santa Barbara 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 \$6,349,732 and \$184,785 respectively (see also note VI).

IX. DEBT

The following is a summary of the obligations of the APCD for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Governmental activities:					
Employee compensated absences	\$ 348,694	\$441,255	\$385,820	\$ 404,129	\$ 404,129
Note Payable	128,489	-	128,489	-	-
Total Debt	<u>\$ 477,183</u>	<u>\$441,255</u>	<u>\$514,309</u>	<u>\$ 404,129</u>	<u>\$ 404,129</u>

Compensated absences, and the note payable, are liquidated through the General Fund.

X. 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, 2006 in accordance with the requirements of the Federal Single Audit Act of 1997 and the related U.S Office of Management and Budget's Circular A-133, these programs may be subject to financial and compliance audits by the reimbursing agencies. 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 \$1,363,508 as of June 30, 2006. These contracts involve future commitments to purchase goods and services during the period July 1, 2005 through March 15, 2010.

XI. 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. The APCD carries:

Description	Limit	Deductible
Worker's compensation		
Each accident	150,000,000	-
Disease - policy limit	150,000,000	-
Disease - each employee	150,000,000	-
Employer's Liability	500,000,000	-
Crime including:		
Employee dishonesty, forgery, theft, disappearance, & destruction	1,000,000	25,000
Crime - deductible buy down for:		
Employee dishonesty, forgery, theft, disappearance, & destruction	22,500	2,500
Crime - excess for:		
Employee dishonesty, forgery, theft, disappearance, & destruction	2,000,000	-
All risk property	1,000,000,000	10,000
Boiler and machinery	100,000,000	2,500
General Liability		
Error & omissions, auto liability and non-owned auto	5,000,000	2,500
Employment practices	2,000,000	10,000

XII. 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.

XII. RETIREMENT PLANS – Continued

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

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 Rates</u>	<u>Employee Contribution Rates</u>
APCD Plan (Tier 2)	All APCD employees hired on or after July 3, 1995	17.30%	7.55 – 10.41%
<u>Closed to new Enrollment</u>	<u>Description</u>		
APCD Plan (Tier 1)	Employees hired before July 2, 1995 may continue the plan	16.21%	3.77 – 5.21%

Annual Pension Cost

The annual required contribution for the current year was determined as part of an actuarial valuation performed as of June 30, 2004. 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 4.5%; and (3) salary merit and longevity increases of 1%. 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 four 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>
6/30/2004	12/31/2002	\$ 587,223	\$ 587,223	100%
6/30/2005	6/30/2003	\$ 641,327	\$ 641,327	100%
6/30/2006	6/30/2004	\$ 638,433	\$ 638,433	100%

XIII. 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.

XIII. DEFERRED COMPENSATION – Continued

APCD Employee Contribution 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.

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 has the option to contribute additional earnings up to the Section 457 of the Internal Revenue Code maximums.

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.

**General Fund – Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget - Positive (Negative)
Revenues:				
Licenses, permits, and franchises	\$ 2,825,645	\$ 3,425,645	\$ 3,591,224	\$ 165,579
Use of money and property	140,000	140,000	154,294	14,294
Grants and subventions	2,625,305	2,720,670	2,730,758	10,088
Charges for services	1,374,392	2,365,685	2,380,341	14,656
Other	52,120	52,120	69,961	17,841
Total revenues	7,017,462	8,704,120	8,926,578	222,458
Expenditures:				
Air pollution control services:				
Salaries and benefits	4,981,332	4,981,332	4,944,060	37,272
Services and supplies	2,982,671	2,850,671	2,425,606	425,065
Debt Service				
Principle	--	130,000	128,489	1,511
Interest	--	2,000	1,853	147
Other Expenses	326,521	326,521	301,565	24,956
Capital outlay	149,500	149,500	124,339	25,161
Total expenditures	8,440,024	8,440,024	7,925,912	514,112
Excess (deficiency) of revenues over expenditures/expenses	(1,422,562)	264,096	1,000,666	736,570
Fund balances:				
Beginning of year	5,211,831	5,211,831	5,211,831	--
End of year	\$ 3,789,269	\$ 5,475,927	\$ 6,212,497	\$ 736,570

See accompanying notes to the schedule of General Fund Budgeted and Actual Expenditures – Budgetary Basis.

Notes to Schedule of General Fund Budgeted and Actual Expenditures – Budgetary Basis

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 and services and supplies 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.

A number of supplemental budgetary appropriation changes were made during the year. The amended budget compared to the adopted budget reflects no change in the total budgeted appropriations and a \$1,686,658 increase in budgeted operating revenues.

The changes to the revenue budgeted were the result of several factors. Portions of services and supplies were reallocated to debt service. Debt Service was originally budgeted under services and supplies, while GAAP requires that it be broken out. The District paid off the debt in November 2005 and debt service will not appear in future years.

A use of prior year fund balance of originally \$1,422,562 was budgeted for fiscal year 2005-06 and amended to a savings of \$264,096, and at the end of the fiscal year, was actually a savings of \$1,000,666. This resulted in a positive variance of \$2,159,132 between originally adopted budget and actual amount, and a positive variance of \$736,570 between the final adopted budget and actual amount.

Please see the General Fund Budgetary Highlights Section of the MD&A, beginning on page 18, for more details.



**Santa Barbara County
Air Pollution Control District**

Comprehensive Annual Financial Report
Year Ended June 30, 2006

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 2005-06

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 Seven Calendar Years

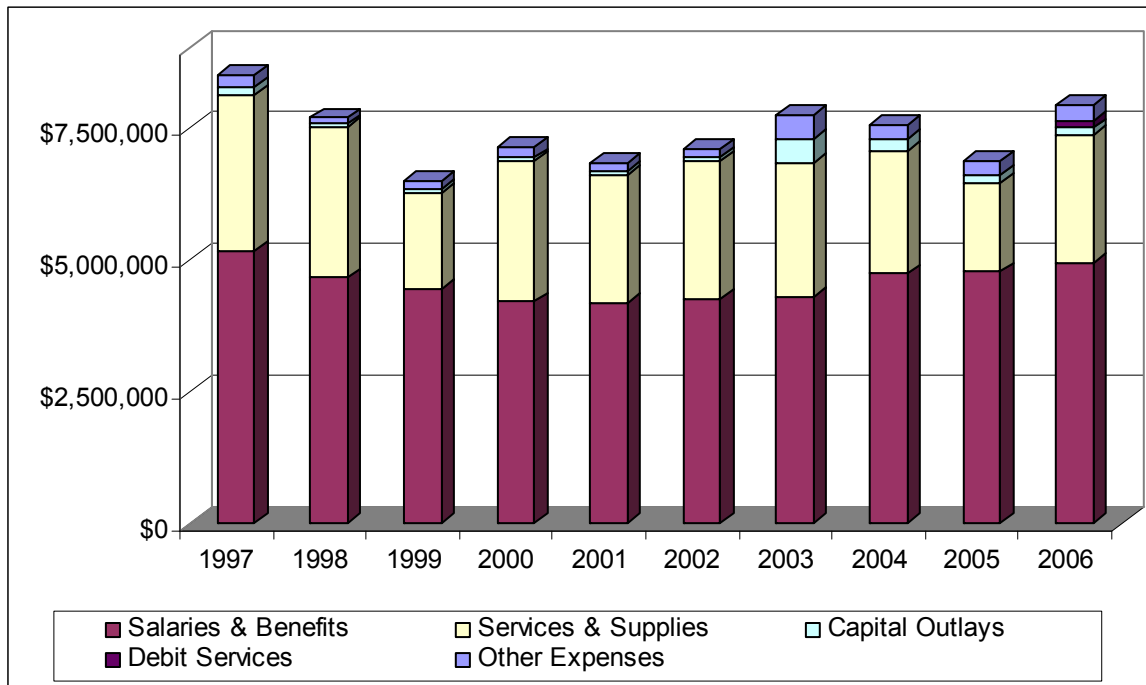
Santa Barbara County Civilian Employment – Last Seven Calendar Years

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

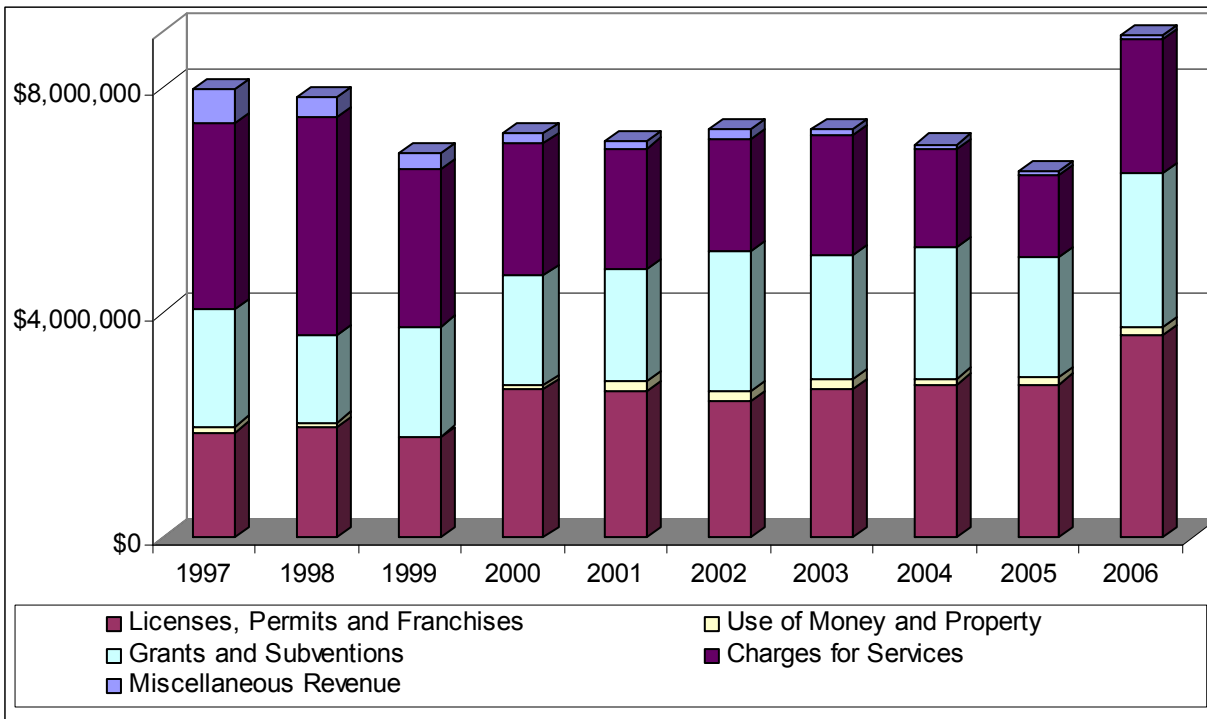


Year	Salaries & Benefits	Services & Supplies	Capital Outlays	Other Expenses	Debt Service	Total Expenditures
1997	5,172,457	2,941,366	160,997	226,450	-	8,501,270
1998	4,650,398	2,863,132	55,644	114,021	-	7,683,195
1999	4,450,217	1,816,854	59,332	155,876	-	6,482,279
2000	4,194,863	2,667,598	58,328	225,173	-	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

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**

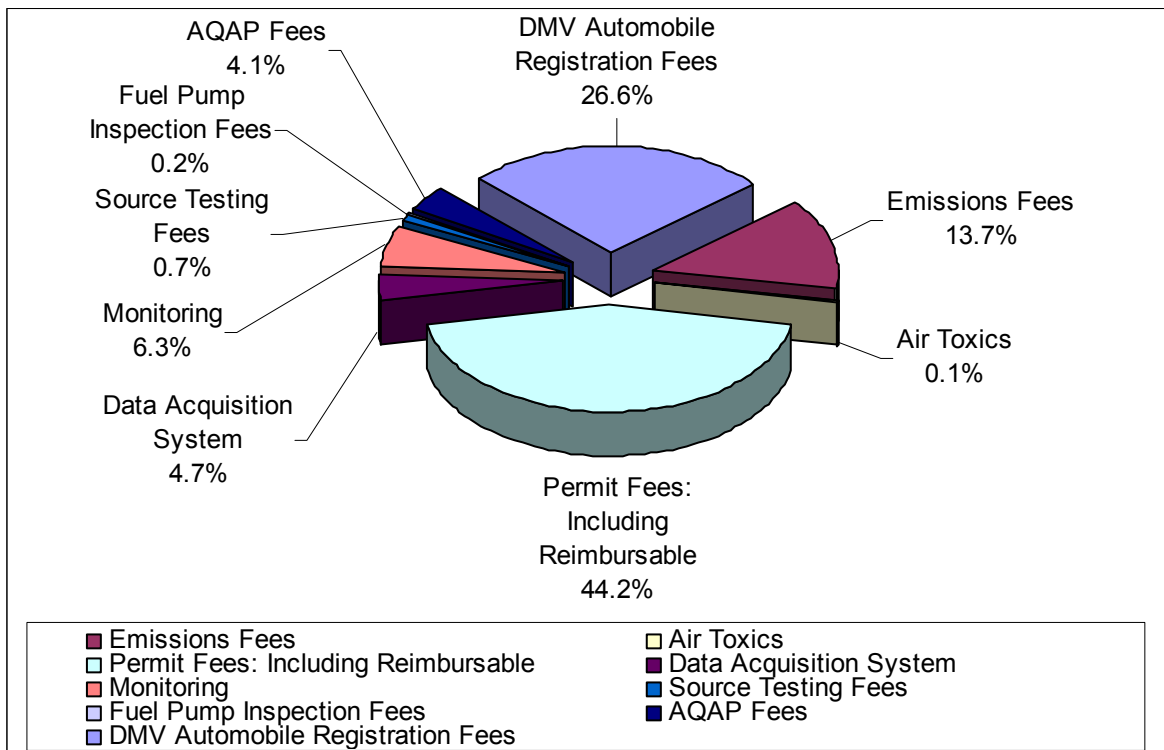


Year	Licenses, Permits and Franchises	Use of Money and Property	Grants and Subventions	Charges for Services	Miscellaneous Revenue	Total Revenues
1997	1,867,215	103,108	2,085,856	3,302,954	611,337	7,970,470
1998	1,947,029	96,584	1,556,726	3,873,201	368,267	7,841,807
1999	1,776,999	17,025	1,954,936	2,802,658	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

Source:

Santa Barbara County Air Pollution Control District Audited Financial Statements

General Fund Fee Revenues by Fee Source – Fiscal Year 2005-06

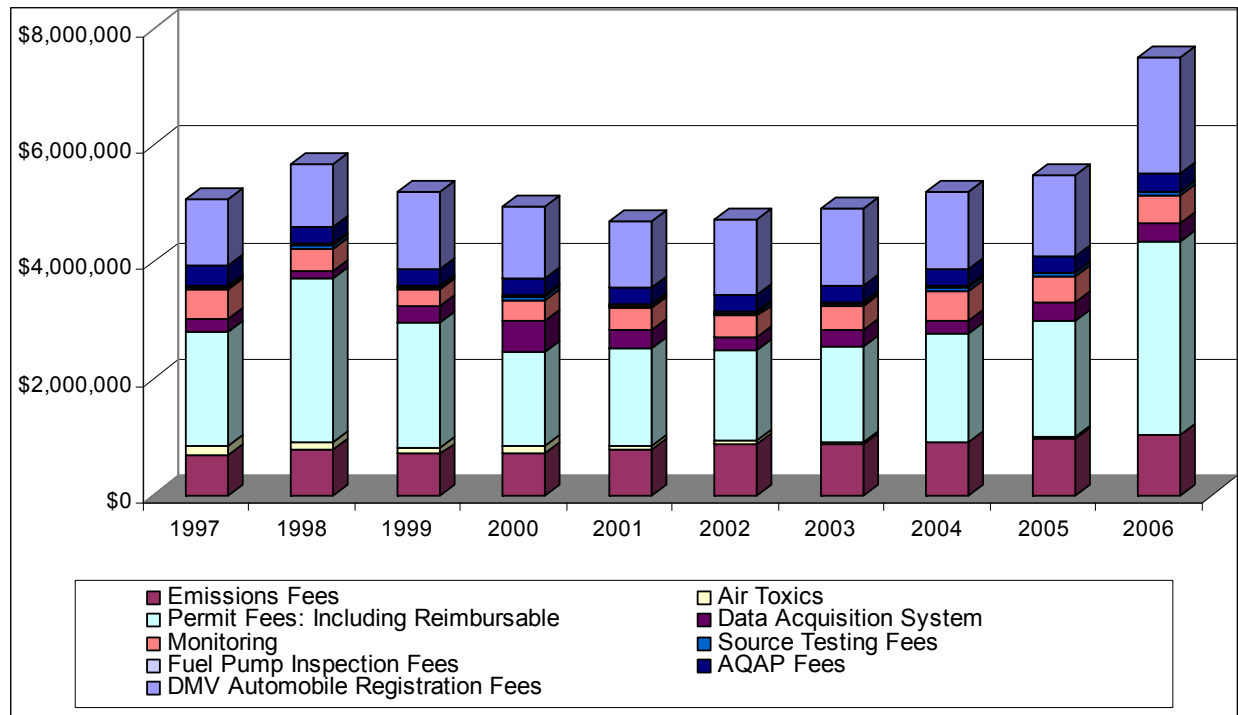


Fee Source	FY 05-06
Emissions Fees	\$ 1,025,676
Air Toxics	9,086
Permit Fees: Including Reimbursable	3,315,396
Data Acquisition System	310,314
Monitoring	472,089
Source Testing Fees	55,300
Fuel Pump Inspection Fees	16,641
AQAP Fees	305,550
DMV Automobile Registration Fees	1,995,966
Total Fee Revenues	\$ 7,506,018

Source:

Santa Barbara County Air Pollution District Fee Revenues

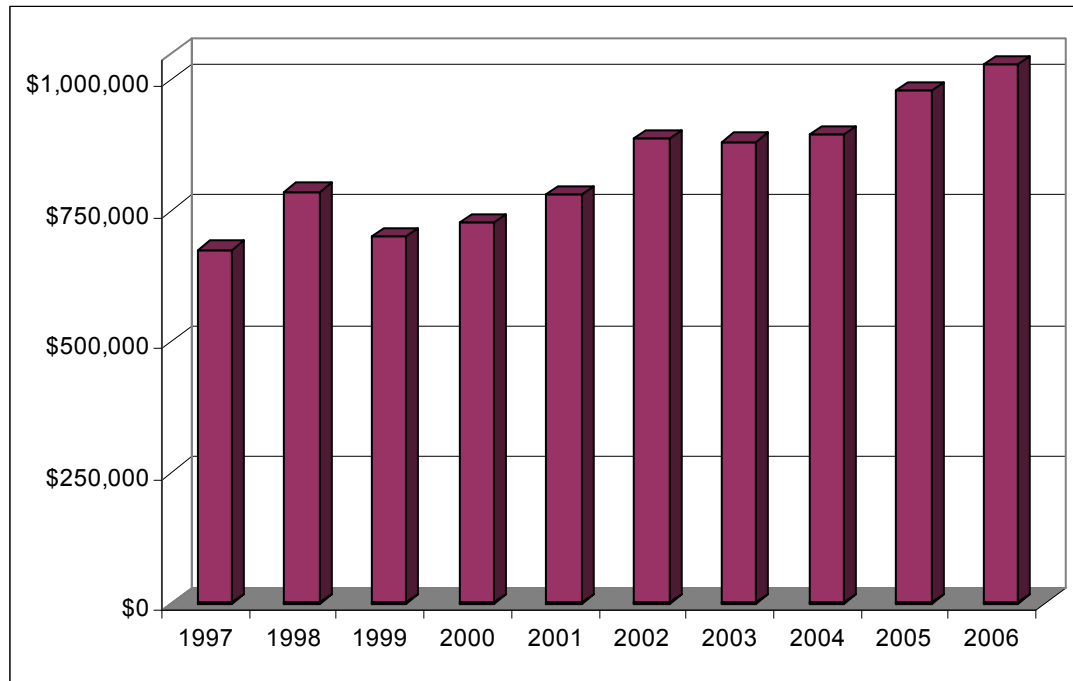
General Fund Fee Revenues by Fee Source – Last Ten Fiscal Years



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
1997	673,251	179,387	1,944,124	230,128	498,370	24,305	31,904	354,556	1,136,924	5,072,949
1998	783,259	106,529	2,822,862	139,540	361,749	62,486	27,643	301,661	1,067,949	5,673,678
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

Source:
Santa Barbara County Air Pollution District Fee Revenues

Emission Fee Revenues – Last Ten Fiscal Years



Year	Emission Fees
1997	673,251
1998	783,259
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

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.

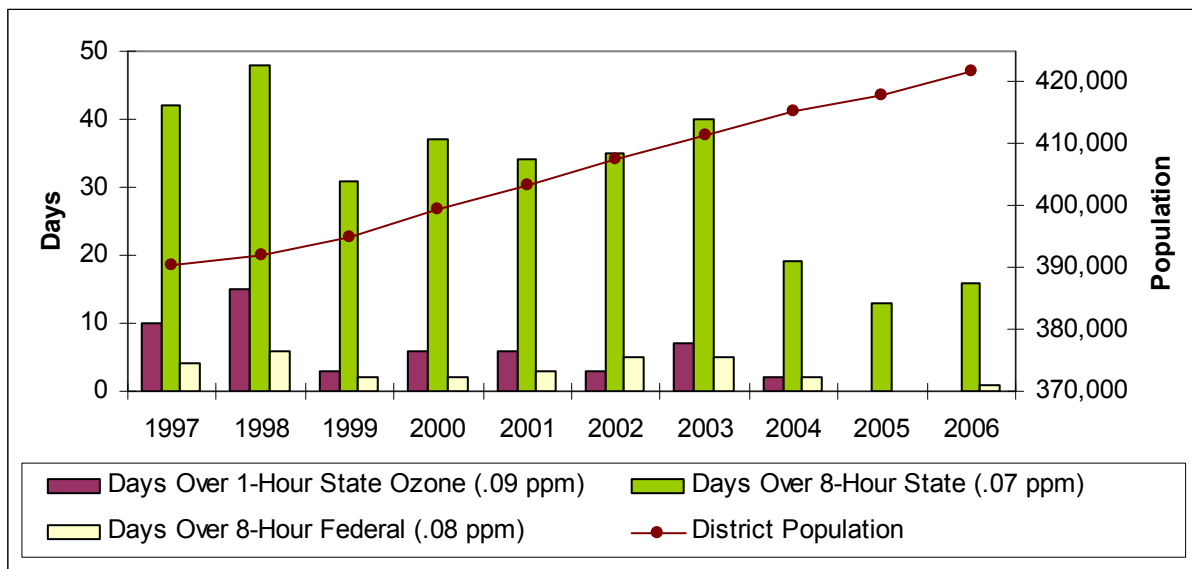
Lompoc Valley

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 1-Hour State Ozone (.09 ppm)	Days Over 8-Hour State (.07 ppm)	Days Over 8-Hour Federal (.08 ppm)	District Population
1997	10	42	4	390,500
1998	15	48	6	392,000
1999	3	31	2	394,900
2000	6	37	2	399,347
2001	6	34	3	403,247
2002	3	35	5	407,409
2003	7	40	5	411,528
2004	2	19	2	415,271
2005	0	13	0	417,988
2006	0	16	1	421,625

Note:

Population figures prior to 2000 are at July 1. Population figures after are at January 1.

Sources:

2001-2005 Data:

State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and the State*, 2001-2005, with 2000 DRU Benchmark. Sacramento, California, May 2005.

<http://www.dof.ca.gov/HTML/DEMOGRAP/HistE-4.htm>

1994-2000 Data:

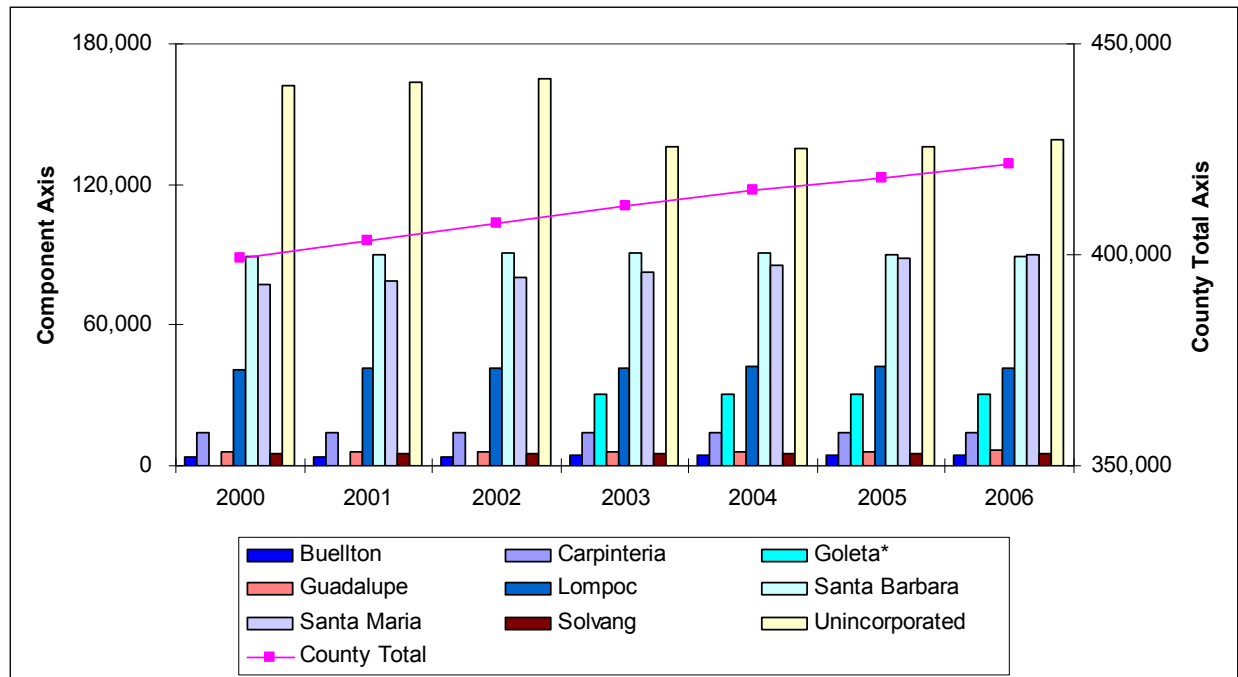
State of California, Department of Finance, *County Population Estimates and Components of Change*, July 1, 2001-2002, with Historical 2000 and 2001 Estimates. Sacramento, California, January 2003.

<http://www.dof.ca.gov/HTML/DEMOGRAP/190-00.HTM>

Smog Data:

Santa Barbara County Air Pollution Control District Monitoring Data.

Santa Barbara County Population by City – Last Seven Calendar Years

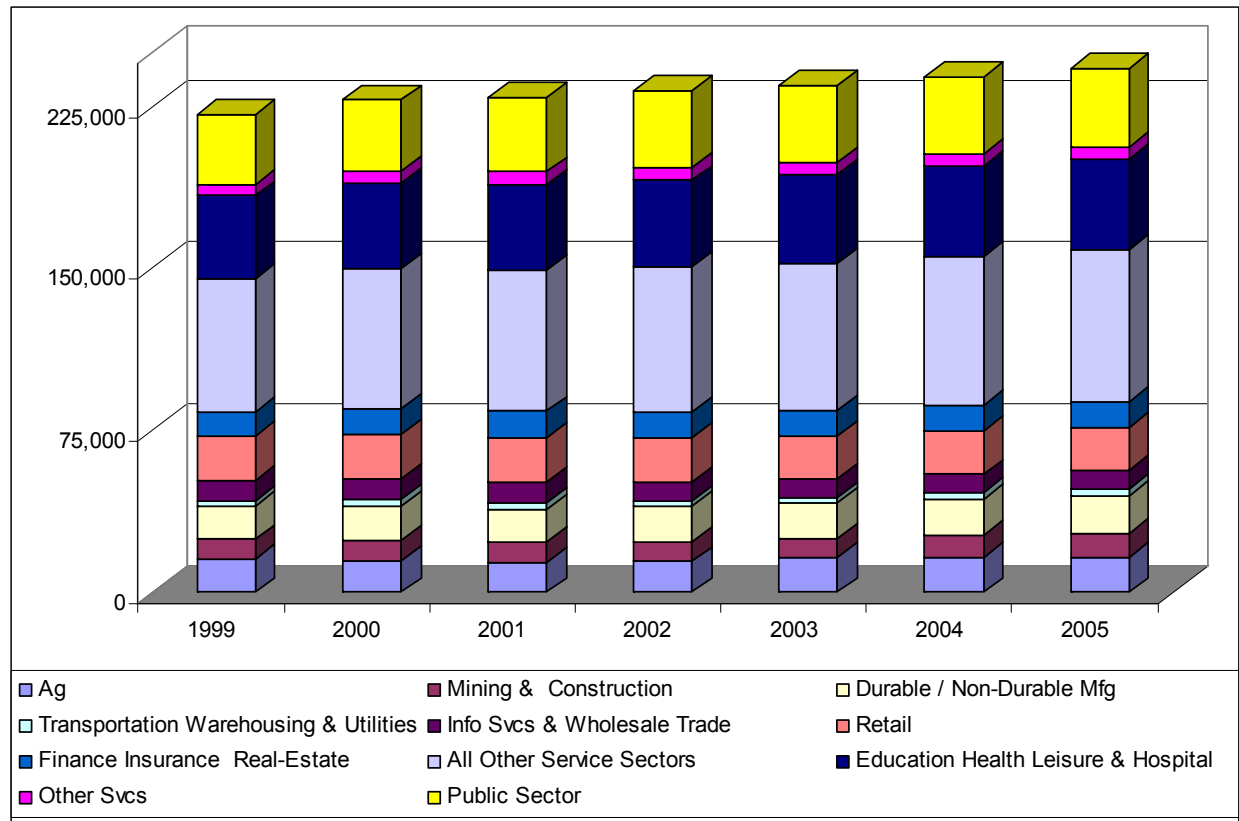


Santa Barbara County (January 1,)							
City	2000	2001	2002	2003	2004	2005	2006
Buellton	3,828	3,917	3,980	4,217	4,464	4,539	4,548
Carpinteria	14,194	14,360	14,417	14,402	14,383	14,295	14,172
Goleta*	0	0	0	30,827	30,781	30,580	30,290
Guadalupe	5,659	5,888	6,085	6,279	6,319	6,276	6,423
Lompoc	41,103	41,506	41,626	41,889	42,305	42,197	41,915
Santa Barbara	89,606	90,120	90,597	90,527	90,601	90,238	89,548
Santa Maria	77,423	78,595	80,420	82,201	85,446	88,521	90,204
Solvang	5,332	5,389	5,437	5,442	5,442	5,413	5,369
Unincorporated	162,202	163,472	164,847	135,744	135,530	135,929	139,156
County Total	399,347	403,247	407,409	411,528	415,271	417,988	421,625

* Goleta incorporated in 2003.

State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and the State*, 2001-2005, with 2000 DRU Benchmark. Sacramento, California, May 2005.
<http://www.dof.ca.gov/HTML/DEMOGRAP/HistE-4.htm>

Santa Barbara County Civilian Employment – Last Seven Calendar Years



Year	Ag	Mining & Construction	Durable / Non-Durable Mfg	Transportation Warehousing & Utilities	Info Svcs & Wholesale Trade	Retail	Finance Insurance Real-Estate	All Other Service Sectors	Education Health Leisure & Hospital	Other Svcs	Public Sector	Santa Barbara County Total
1999	15,258	9,216	15,258	2,900	9,033	20,692	11,192	61,783	38,184	5,475	32,442	221,433
2000	14,850	9,275	15,858	2,875	9,433	20,950	11,909	65,075	39,250	5,617	32,833	227,925
2001	13,758	9,534	15,067	2,958	9,875	20,167	12,525	65,175	39,600	5,958	34,450	229,067
2002	14,233	8,850	16,541	2,808	8,875	20,333	12,117	66,792	40,200	5,983	35,750	232,482
2003	16,183	8,633	16,458	2,900	8,409	20,092	11,667	67,842	41,017	5,750	35,575	234,526
2004	16,008	10,475	16,583	2,933	8,550	20,208	11,709	69,142	41,475	5,583	35,867	238,533
2005	16,325	10,975	17,267	2,992	8,925	20,100	11,741	70,333	41,750	5,608	36,358	242,374

Source:

The 2005 Santa Barbara County Economic Outlook.

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
1997	284,231	1,136,924
1998	266,987	1,067,949
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

* 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>	421,625 (In January 1, 2006)
<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>	334,324 (in Fiscal Year 2005-06)
<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>Number of Permitted Sources:</i>	658
<i>Number of Ozone Monitoring Stations:</i>	12
<i>Full-time Positions for 2005-06:</i>	55.25 are authorized and 54.25 are funded.
<i>Adopted 2006-07 Budget:</i>	\$9,702,009
<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.